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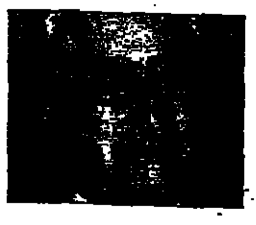

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The incredible lightness of growing
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BP takes over Amoco in $50bn deal

Agreed merger creates oil giant to rival Shell and Exxon

By Robert Corzine in London

British Petroleum sent tremors through the international oil industry yesterday by announcing a £30.5bn ($50bn) agreed takeover of Amoco of the US, in what was billed as the world's biggest industrial merger.

The deal will create Britain's largest company, to be known as BP/Amoco. It will have a market capitalisation of $110bn and 100,000 employees worldwide. About 6,000 are expected to lose their jobs as a result of the deal.

BP shares initially soared on the news, but fell back to close up 22p at 795p. In afternoon trading on Wall Street, Amoco shares were up $6 1/16, or nearly 15 per cent, at $46 11/16.

Executives from the two companies say the combination, which will be the third largest oil company in the world, will have the financial scale and global reach eventually to challenge Royal Dutch/Shell, the Anglo-Dutch group, and Exxon of the US for the leadership of the international oil industry.

Sir John Browne, BP's chief executive, will run the new company out of London, with Chicago becoming the centre for the group's extensive US operations. Larry Fuller, Amoco's chairman, will become co-chairman of the combined group, but is due to retire in 2000. Although it was clear that BP will be the dominant partner, Sir John said: "The deal was done on both sides from a position of strength." The agreed equity split will be 60 per cent to BP shareholders and 40 per cent to Amoco's. The deal values Amoco shares at a 15 per cent premium to Monday's closing price. The companies will seek shareholder approval by October or November, and aim to close the deal by the year-end.

Mr Fuller said he doubted whether a counter-bidder would emerge for Amoco, as the BP offer "was sufficiently strong". And Sir John said BP had already taken steps to avert any battle for Amoco. In the event of a counter-bidder emerging, it has the right to buy 19.9 per cent of Amoco's shares at a pre-announcement price. Amoco would also have to pay BP a $1bn fee if the deal went sour.

The takeover marks an end to a long period of stability among the western world's biggest oil companies. Although there has been growing talk of the need for consolidation in the sector – especially in the light of this year's oil price slump – few industry observers expected any early action. Sir John said yesterday's announcement was not driven by low crude prices. His vision for the new group showed a desire to create a company which had the financial clout to compete for the most desirable opportunities – which in the oil industry usually equates to those with the lowest production costs. Analysts said the deal could transform BP's fortunes. It gives it a significant position in the global natural gas industry and propels BP's chemicals division to number three in the world.

INSIDE

World's biggest oil companies
Listed companies by 1997 reserves

	$bn
Royal Dutch/Shell	128.2
Exxon	120.3
BP-Amoco	107.0
Mobil	65.9
Texaco	45.2
Elf Aquitaine	43.6
Chevron	40.6
ENI	37.0
Total	32.8
Atlantic Richfield	19.3

Source: S&P, companies

Sir John Browne (left), BP chief executive, who will run the new company, with Amoco's Larry Fuller (centre), and BP's Peter Sutherland. Sinead Lynch

Decline of yen pushes global markets down

By Our Financial and International Staff

The relentless decline of the Japanese yen sent global stock markets tumbling again yesterday, raising concerns that a summer correction was turning into something more serious.

By lunch time in New York, the Dow Jones Industrial Average was down more than 250 on the day and 1,000 below the all-time high of 9,367 recorded on July 17. In London, the FTSE 100 index dropped 154.8 to 5,432.8, its biggest one-day points decline since October last year. The Footsie has fallen 12 per cent from its all-time peak of 6,179, reached only three weeks ago.

The day's slide started with the foreign exchange markets in Tokyo where the yen fell to an eight-year low against the US dollar of Y147.63, dropping beneath the June level of Y146.75 which prompted concerted intervention from the US and Japanese authorities.

The yen's decline was prompted by investors' concerns about the ability of the new Japanese government to turn round its economy. That in turn prompted worries that the yen's weakness might trigger devaluations of the Hong Kong and Chinese currencies.

Rumours about Indonesia's willingness to repay corporate debt and a sharp rise in Russian treasury bill yields added to the concerns, prompting investors to switch money into what is seen as the haven of bonds. The yield on the 10-year German government bund dropped to 4.36 per cent, the lowest level since the second world war.

Stock market losses were transmitted from continent to continent as the day wore on. The Hang Seng index fell 3.6 per cent to a five year low and Japan's benchmark Nikkei 225 average finished down for the seventh consecutive day, its longest continuous downward slide for two and a half years.

Europe proved unable to resist the downward drift. Most European bourses dropped 2 to 3 per cent, with the FTSE Eurotop 100 index falling 75.3, or 2.8 per cent, to 2,659.86.

Neither New York or London was able to take much comfort from the British Petroleum takeover of Amoco, the kind of deal that in more normal times would have prompted a hunt for further bid candidates.

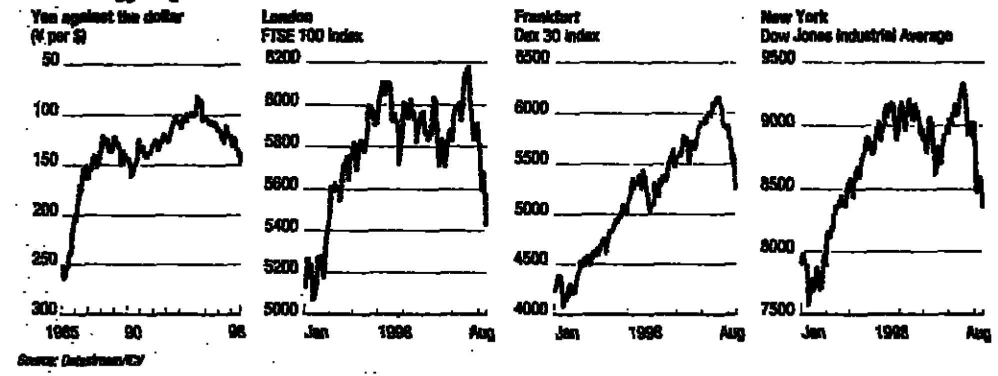
There was no sign of "buying on the dips", which had been the custom of US investors taught that share prices always go up in the long-term.

Wall Street was shaken by a 300-point Dow decline last Tuesday.

Analysts said US investors were concerned that Asian markets showed few signs of improving and that US corporate profits would take a deeper hit than previously thought.

"It came out of the Far East with concern about competitive devaluations," said Marshall Acuff, chief equity strategist at Salomon Smith Barney in New York.

Yen fall triggers global slide



Source: Datastream/ICV

INSIDE

Submarine makers in technology deal

France and Sweden to share systems

By Tim Burt in Stockholm and Robert Graham in Paris

The restructuring of Europe's defence industry advanced yesterday when two leading submarine manufacturers announced a technology-sharing agreement.

Celsius, Sweden's state-controlled defence group, said it was forming a joint company with the DCN, France's state-run naval dockyard, to develop systems for the next generation of conventional submarines.

The announcement, after more than a year of talks, coincided with a statement yesterday from Saab, the Swedish aerospace group, that it intended to extend its links with British Aerospace.

Earlier this summer, the defence ministers of Sweden, France, Germany, Spain, Italy and the UK had agreed to push for an industry restructuring.

Celsius, 62 per cent-owned by the state, said the technology agreement with the DCN could lead to co-operation in other areas, including export marketing and sharing of components on future submarines.

Lars Josefsson, its chief executive, said the deal "should lead to substantial gains in efficiency while simultaneously ensuring significantly reduced development costs".

Under the deal, Celsius will offer the DCN technology from its Kockums Naval Systems subsidiary. The companies have agreed to set up an office in Paris to explore expanded links.

The French government's decision to ally with Celsius is further evidence of its efforts to cut defence costs.

Traditionally, France has guarded its submarine technology closely and has successfully exported conventional diesel-powered vessels. However, the DCN has latterly collaborated with Bazan, Spain's naval dockyards, on the Scorpène subs being sold to the Chilean navy.

The DCN's submarine operations are concentrated at Cherbourg and employ some 4,000 people. Although it is the largest naval group in Europe, it is suffering from a fall in orders from the French navy. It also faces difficulty in pricing its exports, because of high overheads. Exports account for only 15 per cent of its FFr13bn ($2.18bn) turnover.

Between 1997 and 2002, the DCN anticipates a 25 per cent reduction in workload. To offset this and avoid large-scale job losses, it has begun seeking international partners.

Yesterday, Celsius emphasised that the two companies would continue to market their submarine systems separately.

Saab-BAe links, Page 12

WORLD NEWS

Israel lifts block on world nuclear disarmament talks

Israel, the last state holding out against UN-sponsored talks on halting the production of fissile nuclear bomb-making material, lifted its objections under pressure from the US, enabling the 61-nation Conference on Disarmament to set up a committee to draft a treaty. Page 4

Expo '98 official detained
Portuguese police detained the chief accountant of the Expo '98 Lisbon world fair in an investigation into the alleged embezzlement of millions of dollars. Page 10

Renewed fighting in Kosovo
Heavy fighting resumed in Serbia's southern province of Kosovo around villages close to the border with Albania, overwhelming aid agencies with a new wave of refugees. Page 2

Tanzania holds 14 in bomb inquiry
Tanzanian police rounded up 14 foreigners in their search for bombers responsible for Friday's attack on the US embassy in Dar es Salaam. Kenya counts cost, Page 4

Moscow accuses Pakistan
Russia accused Pakistan of providing military support and fighting forces to help the Taliban Islamist movement's advance in northern Afghanistan.

UNHCR to drop ombudsman post
The UN High Commissioner for Refugees is axing the post of mediator, its neutral ombudsman. Anne-Marie Demmer, the outgoing mediator, has published several highly critical reports about the organisation's management. Page 4

Move to end Baghdad standoff
The UN special envoy to Iraq will return to Baghdad tomorrow to try to resolve a standoff between the Iraqi government and UN weapons inspectors.

Kurdish rebels launch attacks
Kurdish Workers Party (PKK) guerrillas rebels have launched a series of attacks on Turkish forces around the eastern garrison town of Tunceli to mark the anniversary of their 14-year-old rebellion.

Russian miners' leader held
The leader of a Russian miners' union was taken in for questioning by police on Tuesday in connection with blockades of railway lines by his members.

Clinton image aide questioned
Television producer Harry Thomason, who advised President Clinton after the Monica Lewinsky scandal broke, went before the grand jury probing alleged White House sex and cover-ups.

UN fears big offensive in Angola
New fighting has erupted in northern Angola in what United Nations officials fear may be a big new offensive by the Angolan Armed Forces (FAA) against Unita rebels. Page 4

Call for end to Auschwitz crosses
Poland's leading Roman Catholic clergyman, Cardinal Josef Glemp, urged an end to the erection of crosses outside the former Nazi death camp of Auschwitz. Page 2

Saudis grant limited online access
Saudis will this year get local access to the Internet now that the authorities have put in place "firewalls" barring access to sites they consider offensive.

BUSINESS NEWS

High demand puts Electrolux 31% ahead in first half

Electrolux of Sweden, the world's largest supplier of household appliances, reported first half profits 31 per cent ahead at SKr 3.05bn ($378m) amid buoyant European and US demand for white goods and the benefits of a wide-ranging restructuring. Page 13

Holderbank, Swiss cement company, acquired 25 per cent of Siam City Cement, Thailand's second largest cement company, for $153m, beating competing offers from Blue Circle of the UK and Lafarge of France. Page 11; Holderbank builds in Asia, Page 13

Oxford Health Plans, troubled New York area health management company, said it had taken a $507.6m loss on revenues of $1.19bn in the second quarter, as it attempted to turn itself round. Page 11

Saab, Swedish aircraft and defence group, announced plans to develop joint supply chain and customer support operations with British Aerospace. Page 12

PetroFina shares fell 5 per cent after the Belgian oil and petrochemicals group reported a fall in first-half net profits to BFr9.71bn ($265.6m) from BFr10.95bn. Page 12

Bertelsmann, Europe's biggest media group, plans to establish centralised distribution for books, music and other consumer products in the UK and Italy. Page 11

Dresdner Bank of Germany held talks with US brokerage PaineWebber as part of its drive to increase its US investment banking and asset management presence. Page 12

Bouygues, French construction, television and telecommunications group, reported a 2.4 per cent advance in first-half turnover. Page 12

Textron, US industrial and finance company, plans an acquisitions campaign in Europe, using the proceeds of the $3.9bn sale of its Avco Financial Services unit to Associates First Capital. Page 14

Neste, Finnish oil and petrochemicals group, blamed weak oil prices and increased exploration costs for a fall in first half profits to FM255m ($9.1m) from FM460m. Page 12

Investor, main investment vehicle of Sweden's Wallenberg business empire, plans to increase its exposure to high-growth technology and telecommunications stocks. Page 12

Samsung Heavy Industries, South Korean shipbuilder, reported first-half net profits of Won51bn ($38m), compared with a loss of Won91.3bn a year ago, as a weaker currency boosted export earnings. Page 13

Burson-Marsteller, one of the world's biggest public relations companies, has been hired by a group of Moscow-based stockbrokers to improve Russia's image among foreign investors. Page 10

Euro Prices
A comprehensive statistical guide to the new euro currency zone, covering foreign exchange, bond and equity markets. Page 19

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	8329.0	(–175.85)
NASDAQ Composite	1787.0	(–52.21)
Europe and Far East		
CAC40	3845.98	(–83.47)
DAX	5288.40	(–207.85)
FTSE 100	5432.8	(–154.8)
Nikkei	15,406.38	(–219.43)
US Lunchtime RATES		
Federal Funds	5.43%	
3-mth Treas Bills: Yld	5.0%	
Long Bond	107 1/8	
Yield	5.588%	
OTHER RATES		
UK: 3-mo Interbank	7 5/8%	(same)
UK: 10 yr Gilt	112.1043	(112.134)
France: 10 yr OAT	105.27	(105.34)
Germany: 10 yr Bund	105.81	(105.88)
Japan: 10 yr JGB	111.85	(111.89)
NORTH SEA OIL (Argus)		
Brent Dated	$11.275	(11.705)

GOLD		
New York: Comex		
(Aug)	$284.5	(287.8)
London:	$284.75	(285.4)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.6315	(1.6357)
DM	1.7805	
FFr	5.9675	
SFr	1.4985	
Y	147.385	
London:		
£	1.6330	(1.6320)
DM	1.7813	(1.7798)
FFr	5.9715	(5.9670)
SFr	1.4880	(1.4947)
Y	147.14	(146.525)
Tokyo Close		Y 147.41
Sterling		
DM	2.9085	(2.9042)

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WORLD NEWS

EUROPE

Russian debt plans under threat

By John Thornhill in Moscow and Jeremy Grant in London

The downward lurch of Russia's financial markets threatens to wreck the government's debt restructuring plans and undermine its anti-crisis programme, painfully crafted with the International Monetary Fund just a month ago.

In response to renewed concerns about the weakness of the Japanese yen and weak oil prices, the leading RTS share price index fell by 9 per cent, while still more serious damage was done in the debt markets.

"The markets have essentially been destroyed," said Charles Blitzer, director of emerging market research at Donaldson, Lufkin, & Jenrette, the US investment bank.

Yields on benchmark GKOs (domestic treasury bills) rose from 95-100 per cent to 115-130 per cent and Prins (restructured Soviet debt) fell to an historic low, trading at default levels of 27 cents on the dollar.

Mr Blitzer argued the collapse in foreign debt prices was forcing exposed Russian banks to dump GKOs and buy dollars to meet their margin calls.

"The government's debt strategy of not issuing short-term paper and lengthening the maturities just does not seem on at the moment. There is not enough confidence out there in either the government's creditworthiness or the government's ability to deliver on its anti-crisis measures," he said.

The Russian government had hoped its agreement with the IMF, which secured up to $22.6bn of external financing by the end of next year, would win it breathing space to restructure its costly domestic debt and close its budget deficit. The trouble is that the current financial turmoil is cramping the government's room for manoeuvre and could ultimately force it into choosing between default or devaluation.

"The central bank does have reserves of $18.4bn and they can simply not auction treasury bills for the time being, so all this secondary market activity is neither here nor there at the moment," said one western economist.

"But it is a question of how long you can carry on like this," he said.

Peter Boone, co-head of research at Brunswick Warburg, a Moscow-based stockbroker, estimates the central bank has recently been spending $800m to $1bn a week to support the rouble and will rapidly run down its reserves over the next few weeks.

"Unless something turns around, this situation is unsustainable," he said.

Oleg Vyugin, the deputy finance minister, said Russian markets had been temporarily hit by the falls in the yen and the oil price and the fact that so many investors were on holiday.

The implication was that small selling volumes had a disproportionate effect on prices.

"But if you talk about August, it is essential to emphasise that the situation is absolutely under control because all our obligations are financed from absolutely intelligible and clear sources," he said in an interview with the Interfax news agency.

Mr Vyugin predicted the markets would reach a "turning point" by the middle of September after the government had taken "definite" – although as yet unspecified – additional measures to address the situation. Rumours abound that it will form a high-powered committee of international financiers to help it advise it on its future debt restructuring strategy.

At present, though, the markets still believe the government will have a funding shortfall this year which must somehow be covered by additional external borrowing.

Bankers see four main channels through which this could be achieved: non-resident purchases of treasury bills; borrowing on the international capital markets; speeding up privatisation; and having local banks buy into the treasury bill market.

"The technical turmoil in the past few days casts doubt on all four methods of financing," said Amer Bisat, emerging market analyst at Salomon Smith Barney. "We are clearly seeing reluctance by non-residents to roll over debt."

With yields on emerging market debt widening to unprecedented levels, it may soon become too expensive for Russia to come back to the capital markets as planned in October.

Yesterday, the government was forced to cancel its latest treasury bill auction, the third in a row.

"There is an urgent need for the government to rebuild the markets and to rethink their very near-term debt strategy," says Mr Blitzer. "But this can only be done in baby steps."

Russia's budget crunch
Debt payment and funding schedules

$bn, 1998	Q3	Q4
Total debt obligations	14.05	14.58
[illegible]	4.58	4.38
[illegible]	1.48	-0.83
[illegible]	2.78	2.04
World Bank	0.80	1.50
Loan from Japan	0.78	0.00
Eurobonds	2.40	2.40
Bridge loans/privatisation proceeds	[illegible]	[illegible]
Potential shortfall	0.00	-2.57

Source: MFK Renaissance Projections

Italy shaken by drugs in sport claim

By Paul Betts in Milan

Italy has been shaken out of its hot summer lethargy by a soccer doping scandal that is rapidly turning into an affair of state.

Walter Veltroni, deputy prime minister and responsible for culture and sport, yesterday urged the judiciary to conduct a thorough investigation into the alleged use of performance enhancing drugs in Italian sport, especially soccer.

The controversy was set off last week by statements by a top football coach on widespread doping in Italian professional soccer.

Zdenek Zeman, the Czech coach of first division Roma, also implied in a magazine interview that the striking muscular improvements of two players in another Italian team could have been induced by drugs.

His assertions, coming soon after the doping scandal in this year's Tour de France, immediately provoked a public storm and prompted a Turin magistrate and Italy's Olympic Committee, CONI, to launch an investigation. Mr Zeman appeared before CONI's special anti-doping committee yesterday and is due to be heard today by Raffaele Guariniello, the Turin magistrate. The magistrate is also planning to question the two soccer stars named by the Roma coach later this month.

The scandal has turned into a political issue because of the cultural, social and increasingly financial importance of soccer in football-crazy Italy.

Mr Veltroni, who has also proposed a European summit to address the problem of drugs in sport, urged the Italian parliament to approve new anti-doping legislation as soon as possible. The senate is considering a bill which would make the prescription and use of illegal drugs a prison offence.

At present, there is no law against drugs in sport in Italy. However, CONI can punish athletes, coaches and team doctors for drug-related violations by banning them from competition for up to four years. The Italian professional soccer federation has suggested the introduction of voluntary blood tests after matches during the next season. It said any player refusing to submit himself to a test would immediately be under suspicion. Most of the country's political parties have also called for new measures against drug use in sport. The centrist UDR party suggested team doctors should be public servants.

Norway raises rates to bolster currency

By Valeria Sköld in Oslo

Norway's central bank yesterday announced it would raise benchmark interest rates in an attempt to bolster the country's currency, which has come under pressure from weak oil prices.

From today, deposit and overnight lending rates will both rise by 50 basis points to 5.50 per cent and 7.50 per cent respectively, the fifth increase this year. Rates are now at their highest since 1993.

A rise in short-term money market rates on Monday had proved unable to help the krone recover significantly from recent falls.

Kjell Storvik, the central bank governor, said rates had been increased because of the extent of the currency's fall against the Ecu index. But the timing of the increase took some economists by surprise, coming so soon after the rise in money market rates.

Jan Qvigstad, the central bank's chief economist, said that increasing deposit and overnight rates sent a stronger signal to the markets than did rising money market rates.

Mr Storvik also reiterated earlier warnings that the country's 1999 budget should contain fiscal tightening measures. The bank, whose mandate is to stabilise the krone, also acts as political adviser to the government on inflationary issues. Last November, it issued a letter to the government urging it to curb spending. "We believe it was very unfortunate that the budget was not tightened in 1998," he said.

The bank expects the Norwegian mainland's economy will grow by 4 per cent this year and 2.75 per cent in 1999. According to its calculations, the long-term growth trend for the economy is 2 per cent to 2.5 per cent a year. Any greater growth introduces inflationary pressures, Mr Qvigstad said.

The krone barely rose yesterday, moving from NKr4.270 to NKr4.268 against the D-Mark

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R

KOSOVO FIGHTING 160,000 PEOPLE ESTIMATED TO HAVE LEFT THEIR HOMES IN LAST FIVE MONTHS

Aid agencies overwhelmed by refugees

By Guy Dinmore in Belgrade

Heavy fighting resumed yesterday in Serbia's southern province of Kosovo around villages close to the border with Albania, overwhelming aid agencies with a new wave of refugees.

In comments on the "steadily worsening situation" Kofi Annan, UN secretary-general, called for the Serbian forces to avoid acts "of wanton destruction".

Serbian officials said government forces had responded to attacks by ethnic Albanian rebels of the Kosovo Liberation Army (KLA) based in the south-west village of Glodjane. Five Serbian policemen were confirmed killed over the last two days.

According to the Kosovo Albanian side, the Yugoslav army had mustered many tanks around the town of Decane and was shelling nearby villages indiscriminately.

Western diplomats said the focus of the latest offensive ordered by Slobodan Milosevic, the Yugoslav president, was the south-west border area after KLA strongholds in central Kosovo were destroyed or captured last week.

Breaking a two-week silence, the separatist KLA issued a statement calling on the Kosovo Albanian majority to unite and be ready for a long war. Kosovo Albanian sources say the KLA, which has suffered a serious military setback, has broken into two main factions. It is not yet clear whether Ibrahim Rugova, leader of Kosovo's main party, will be able to form a coherent team to negotiate with Belgrade.

The UN refugee agency estimates that 160,000 people have been displaced within Kosovo by the five-month conflict while at least 70,000 more have fled the province.

"The secretary general is concerned that the evolving crisis, if unchecked, could lead to a large scale humanitarian disaster, with the approaching winter," said Mr Annan's spokesman.

Serbia's Interior Ministry has dropped leaflets by air urging refugees to cut their ties with the KLA and guaranteeing their safety if they return to their villages. "Terrorists will not bring you any good. Everywhere they bring just ill fortune. They take your villages, they make you take weapons by force, they put shame on your wives and girls," the leaflet says.

Albanian refugees from the Drenica region of Kosovo wait for food distribution in Djakovica Reuters

But since many villages have been shelled and burned – including some visited previously by the US envoy, Chris Hill – thousands of people have nowhere to live.

The UN High Commissioner for Refugees, co-ordinating relief efforts, fears a catastrophe this winter with food shortages and epidemics if refugees cannot return soon to harvest their crops. But the UNHCR spokesman, Mons Nyberg, says their fear of going back is justified.

The agency has responded to criticisms by western non-governmental organisations of inadequate planning and response to the crisis by saying it is understaffed and lacks funds.

Aid agencies also accuse the Serbian authorities of obstruction. The British aid group Oxfam waited one month for one consignment of aid to be cleared. Only UN agencies are allowed by the government to use short-wave radios and the International Red Cross had their communications equipment confiscated.

But agencies agreed that international pressure on Belgrade had improved co-operation and access over the past week.

With additional reporting by Laura Silber in New York

Musicians in the street strike a chord with new bank chief

The head of the EBRD is warning western Europe of the urgency of reform in the east, writes Stefan Wagstyl

Horst Köhler says three things helped him decide to take on his new job as president of the European Bank for Reconstruction and Development: a chat with his daughter, a telephone call from Helmut Kohl, the German chancellor, and the sight of Russian musicians begging in the streets near his home in Bonn.

Mr Köhler's daughter, who is studying in the UK, told him London (the EBRD's home) would be a fine place to live and work. Mr Kohl convinced him that the EBRD's role as a multilateral bank for the former Communist bloc was important "not just for Europe but for the whole world". And the pitiful presence of the musicians persuaded Mr Köhler of the urgency of modernising eastern Europe.

"These were musicians of great quality. Artists. And they were like beggars. This could burst the pride of a nation, to have its artists reduced to beggars. People can endure this for a while. But for how long? This is one reason why I took this job," he said in his first interview since his appointment last month.

Mr Köhler arrives at the EBRD at a time when it needs new impetus from the top. It has won praise from shareholder governments for the quality of its work, but has suffered for months from a lack of leadership. It started looking for a new president last summer after Jacques de Larosière announced plans to retire.

Even though Mr de Larosière stayed until January, European Union governments had not found a successor by the time he left.

Mr Köhler was appointed only after the EU settled a damaging row over the appointment of Wim Duisenberg as the first president of the European Central Bank.

Mr Köhler says his deep commitment to the renewal of eastern Europe stems from his childhood experiences as a refugee in the second world war.

He was born in German-occupied Poland in 1943, where his father was serving as a soldier. He was still a baby when he and his family escaped to eastern Germany before the advancing Soviet troops. The family spent nearly 10 years in the Russian-occupied zone before fleeing to the west in 1953.

"I feel a personal sense of responsibility that we should not allow such things as the war to happen again," says Mr Köhler, his voice quiet with emotion.

He warns that if the reforms fail in eastern Europe, particularly in Russia, there is scope "for trouble so bad that we can't describe it". The Russian people's capacity for suffering is "unbelievable" but it should not be "overstretched". Western Europe would not escape: "hundreds of thousands, if not millions" of refugees could come across its borders.

Mr Köhler brings to the EBRD long experience of international financial relations. As a former senior official in the German finance ministry, he was for several years his country's top civil servant at Group of Seven meetings.

For the past five years, he has headed the German Savings Banks Association. But even here he kept an eye on international finance, urging local banks to focus on the opportunities created by economic globalisation.

For Mr Köhler, the EBRD's main challenge is to support the development of market economies in former Communist countries. As a bank, it must seek to make profits. But as a multilateral agency established by governments, it also has a mission to promote the market economy in eastern Europe.

Mr Köhler dismisses as "artificial" the long-running argument among EBRD shareholders about whether it should concentrate its efforts on relatively well-developed central European countries such as Poland or on more needy former Soviet republics. He says the bank still has much to do even in the most advanced countries.

"A market economy is not built in 10 years, or even in one generation. It takes a long time to change the mentality of people. For example, there is still a huge task in strengthening small and medium-sized companies in central Europe."

Köhler: says bank still has much to do Hans Günther Oed

But the challenge in central Europe pales in comparison with that in Russia. Mr Köhler supports the efforts of President Boris Yeltsin and Sergei Kiriyenko, his young prime minister, and the financial aid programme led by the International Monetary Fund.

But he says the recent international aid has merely given Russia "a breathing space". It urgently needs a medium and long-term reform plan for building a market economy. The Russians themselves must conceive such a plan, but western institutions, including the EBRD, could contribute.

The west should not offer only money, says Mr Köhler. Equally important is the opening of markets for exports from Russia and other east European countries. The EU and US have gone some way to liberalise trade, but key markets in products the former Communist bloc could export, such as agriculture, coal and steel, remain restricted.

"Transition is not just for the eastern countries. It is also for the west," he says. The alternative to helping create jobs in the east is the danger of provoking a flood of refugees to the west.

Mr Köhler pauses occasionally, wondering whether he has been too blunt. But he ploughs on, convinced there are few words strong enough to express the importance of the work ahead – or the consequences of failure. "Transition must be a success. It must really result in a better world."

NEWS DIGEST

MILLENNIUM EXPO

Bonn spurns pleas for exhibition tax breaks

The Bonn government yesterday rejected a call from the organisers of the Expo 2000 exhibition for special tax breaks to help prevent the high-profile millennium project running up losses.

Although Günter Rexrodt, the economics minister, has backed exempting ticket sales at the Hanover-based Expo from tax, a government spokesman said there was no scope under current legislation for such a measure, which could be worth about DM300m ($168m).

Expo 2000 has taken on political importance ahead of the federal election on September 27 because Gerhard Schröder – Social Democratic challenger to Chancellor Helmut Kohl – is prime minister of Lower Saxony, which includes Hanover. Mr Schröder has backed exempting the exhibition from sales tax.

Last week the Bonn economics ministry said consultants from Roland Berger had been asked to report on risks facing the exhibition and possible action. Yesterday, Expo 2000 said it stuck to its goal of breaking even and projected 40m people would visit the Hanover site.
Ralph Atkins, Bonn

NUCLEAR WASTE

Shipments still suspended

German nuclear waste shipments, suspended in May after revelations of radiation leaks, will not resume until after September's general election, Angela Merkel, environment minister, said yesterday.

She spoke after Greenpeace activists climbed to the top of Germany's oldest nuclear power station near Hamburg, protesting against the use of nuclear energy and calling for the immediate closure of plants more than 20 years old.

Brushing aside calls by ecology groups and the opposition Green party for an end to nuclear energy, Ms Merkel said Germany had one of the world's safest atomic industries and abolition would be a big mistake.

Ms Merkel came under pressure to resign after admitting in May that in some cases during the 1980s and 1990s, radiation on containers carrying spent nuclear fuel rods to reprocessing plants in Britain and France was thousands of times too high. **Reuters, Bonn**

FRENCH ECONOMY

Large price fall in July

French consumer prices in July fell 0.4 per cent compared with a 1 per cent rise the previous month, according to Insee, the official statistics institute.

Prices have tended to drop in July but last month's fall was exceptionally large. Insee attributed this to the impact of heavy discounts in the summer sales to offload inventories, combined with a larger than usual fall in fresh food prices plus the continued low cost of energy inputs. Year-on-year inflation ran at 0.8 per cent in July, compared with 1 per cent during the same month in 1997.

Analysts said France continued to enjoy one of the lowest inflation rates in the euro-zone. The July figures showed the strong domestic recovery, which began at the end of the first half of 1997, had yet to produce any inflationary pressures. **Robert Graham, Paris**

AUSCHWITZ DISPUTE

Cardinal opposes crosses

Cardinal Josef Glemp yesterday asked Polish Catholics to stop erecting crosses outside the former Nazi death camp of Auschwitz. It was the first explicit plea from the primate for an end to the actions of radical Catholics, which have angered local and international Jewish groups.

Fringe Catholic groups and some priests have set up dozens of crosses in a fenced-in field backing on to the former camp, ostensibly to commemorate the murder by German troops of 152 Poles in the second world war.

Jewish groups object to any religious symbols being placed near the camp, where 1.5m people were murdered in the second world war, some 90 per cent of them Jews.
Reuters, Warsaw

OUTPUT GROWTH SLOWS INCREASE IN COMPANIES' LABOUR COSTS IS PUSHED TO FASTEST RATE IN MORE THAN FOUR YEARS

Productivity of US workers declines

By Gerard Baker in Washington

US workers' productivity declined in the three months to June, pushing the growth in companies' labour costs to its fastest rate in more than four years.

Non-agricultural business productivity – the output per hour of all workers – shrank at a seasonally adjusted annual rate of 0.2 per cent in the second quarter, the Commerce Department reported yesterday.

The decline, the first since early 1995, came as companies continued to increase their payrolls even as their rate of output growth slowed sharply.

With workers' earnings rising at an annual rate 3.8 per cent in the three months to June, the combination propelled growth in unit labour costs – an indicator of inflationary pressures in employment costs faced by companies – to an annual rate of 4.1 per cent.

Though the quarterly productivity figures are volatile, weaker productivity and accelerating labour costs are a troubling indication that the economic conditions the US has experienced in the past few years – strong output growth with low inflation – may be ending.

In the past two years, the US had been enjoying a rise in productivity growth. In the first half of the 1990s, growth was near zero, but in 1996 and 1997 output per hour accelerated to annual rates of increase of 2.4 and 1.4 per cent respectively.

This growth in productivity, driven, some economists argued, by technological innovation, meant workers were able to increase their incomes and companies expand their profits without producing an inflationary upsurge.

But if that period of non-inflationary growth is over, the US could now face difficulties, as employees continue to push for wage gains as output growth slows.

The second quarter's productivity slump may have been the result of temporary factors, however.

The principal cause was the sharp slowdown in output as a result of the General Motors strike and a slowdown in inventory growth. It followed a rapid rise in output per hour in the first quarter – a revised 3.5 per cent, the Commerce Department said yesterday.

Furthermore, uncertainty continues to fog the performance of the service sector. The latest figures showed manufacturing output continued its healthy performance of recent years, growing at 4.2 per cent in the second quarter.

Factory output is much easier to measure than the output of the services sector, and many economists are sceptical about the reliability of the figures for non-manufacturing.

More Americans filed for federal bankruptcy protection in the 12 months ending in June than in any one-year period, the Administrative Office of the US Federal Courts reported yesterday. Federal bankruptcy filings climbed to a record 1.42m for those 12 months, spurred by a 9.2 per cent increase in personal bankruptcies.

Jurors get evidence taped in long, hot price-fixing trial

Audio and videotapes made by an ex-Archer Daniels Midland official have provided respite as hearings drag on. **Nikki Tait** reports

Former Archer Daniels Midland executive Mark Whitacre leaves a federal courthouse in Urbana, Illinois, in January last year AP

The jury in the windowless courtroom struggles to look attentive. In its opening weeks, the criminal trial of top executives at Archer Daniels Midland, the large and influential US agribusiness, provided plenty of drama as federal prosecutors pursued their efforts to prove an extensive price-fixing scam.

But, with the hearings now heading towards their fourth week and yet to reach the halfway mark, some of the early excitement has evaporated and a long, hot summer looms on the 21st floor of Chicago's federal courthouse.

The trial's shape – and the pattern of the arguments – is already clear. Prosecutors are using an extensive bank of audio and videotapes made by Mark Whitacre, former head of ADM's BioProducts division who worked for about three years as an undercover "mole" for the Federal Bureau of Investigation, in their efforts to prove that Mick Andreas, the company's deputy chairman, and Terry Wilson, head of the corn processing operations, joined Mr Whitacre in the price-rigging.

To date, only a handful of prosecution witnesses have taken the stand. The first was Kanji Mimoto, an executive with Japan's Ajinomoto group.

This was one of the four companies which, by its own admission, joined ADM to fix prices in the $600m-a-year market for lysine, an amino acid which is added to animal feed.

Both ADM and the world's other four producers – Japanese and South Korean – have already pleaded guilty to the price-fixing, paying hundreds of millions of dollars in fines and settlements with angry customers. But immunity deals stemming from those agreements did not extend to Mr Andreas or Mr Wilson.

In painstaking detail, Mr Mimoto has recounted a calendar of international meetings – from Paris to Hawaii – where he and executives from ADM and the other companies met to discuss prices and, later on, production volumes.

The illegality of this activity, he has testified, was clear to those involved – and there were even efforts to conceal the purpose of the get-togethers. Early on in the trial, for example, Mr Mimoto was shown the agenda for a meeting at the Hotel Windsor in Paris, mentioning animal rights and environmental issues. That was "a camouflage", he said. "We discussed the price of lysine... We agreed on the new price."

More compelling have been the audio tapes the jury and court spectators have listened to and videotapes made by Mr Whitacre which have rolled across large screens in the courtroom.

In one telephone conversation, Mr Whitacre and Mr Mimoto discussed in detail where they were moving their prices, with the ADM executive forewarning his Japanese counterpart of what the marketing department would be offering different customers. They also discussed how best to liaise with one of the South Korean companies active in the lysine market.

Last week, the prosecution played an even more powerful card – an 82-minute videotape of a 1993 meeting in California at which officers of both ADM and Ajinomoto appeared to thrash out a sales and volume agreement.

Mr Andreas figured prominently as the parties haggled over production numbers. "The question is how do we share the growth – what would we be willing to accept and what would you be willing to accept?" asked Mr Andreas, at one stage.

Hirokazu Ikeda, the Ajinomoto executive who led the Japanese delegation, went on to testify that he subsequently sent a memo to the smaller lysine manufacturers to say that the two companies had "agreed on a tentative quantity allocation".

Although there is no certainty about which witnesses will be called, it is clear that the government intends to try to make its case without Mr Whitacre's assistance. He became a big liability for the prosecution when – shortly after his taping activity came to light – ADM accused him of embezzlement. Mr Whitacre has subsequently pleaded guilty to 37 counts of fraud, money laundering and tax evasion. He is serving a nine-year jail sentence.

Lawyers for Mr Andreas and Mr Wilson have suggested that, while their clients feature on the tapes and apparently participate in price-fixing discussions, their real objective was to gather information on the size of the lysine market.

In short, they, too, were playing a double game, sounding out their rivals.

The one figure missing from the courtroom is Mark Whitacre, the mole himself. Mr Whitacre turned up at the start of the trial, and his lawyer still remains a permanent courtroom presence. But Mr Whitacre complained about the prison conditions in Chicago's Metropolitan Correctional Center early on – citing poor food and being kept up by fellow prisoners. "Latin Kings are on every floor," he said, refering to a notorious street gang. Judge Blanche Manning allowed him to return to the jail in North Carolina.

For the jurors, however, there is no such escape.

NEWS DIGEST

CROSS-BORDER DEALS

Takeover activity rises despite economic woes

The level of cross-border takeover activity in Latin America increased in the first six months of the year – in spite of the region's economic slowdown and falls in local stock markets. Companies from Europe, the US and Asia were involved in 41 deals in Latin America during the first half of the year, compared with 31 in the second half of last year and 24 in the first six months of 1997, according to an analysis published this week by Robert Fleming Securities, the investment bank's broking arm. Latin American companies were involved in a further five cross-border deals within the region, according to the research which tracks transactions of more than $50m in value.

The total value of the deals fell to $16bn compared with $16.2bn in the last half of 1997, mainly due to a decline in the value of assets. Latin America continued to attract the lion's share of flows into emerging markets, accounting for some 53 per cent of the total. **Richard Lapper, London**

BRITISH ENERGY/ONTARIO HYDRO

Canadian utility suspends talks

British Energy said it was "disappointed and frustrated" that Ontario Hydro unexpectedly suspended talks to form a partnership to operate the Canadian utility's nuclear reactors. Talks are not likely to resume until early 1999, once the utility has restructured its generation arm as part of a plan to introduce competition into Ontario's electricity sector. Ontario Hydro recently informed British Energy that it was "temporarily" suspending joint venture negotiations.

Terry Young, an Ontario Hydro spokesman, would not provide a time frame for restarting talks, but he said the utility needed to first focus on restructuring and recapitalising Ontario Hydro's successor companies and appointing directors. **Scott Morrison, Toronto**

BELL ATLANTIC DISPUTE

Union orders strikers back

Bell Atlantic, the US telephone company, yesterday reached a tentative agreement with the Communications Workers of America ending a two-day strike involving 73,000 union members. The union said it was instructing its members to report for work at the beginning of their next scheduled shifts, ending disruption to non-automated telephone services in New York, Washington DC, and north-eastern US. **Agencies, Washington and New York**

ST KITTS AND NEVIS

Pledge to improve relationship

Leaders of St Kitts and Nevis say they will negotiate an improved relationship between their eastern Caribbean islands following the failure of Nevis's secessionist movement to obtain enough votes to leave the federation in a referendum on Monday. Although 62 per cent of voters backed secession, a two thirds majority was needed for Nevis to become one of the world's smallest nations. **Canute James, Kingston**

WORLD TRADE

ROCKET TECHNOLOGY ACTION AGAINST US AEROSPACE COMPANY WILL DELAY MULTINATIONAL SEABORNE VENTURE

Boeing's space launch licence suspended

By Nancy Dunne in Washington and Charles Clover in Kiev

The US State Department has suspended Boeing's licence to participate in a $500m project to launch commercial rockets from a platform at sea with Russian and Ukrainian partners.

The action was taken after Boeing admitted sharing information with its partners – RSC-Energia of Moscow and KB Yuzhnoye/PO of Ukraine – without first obtaining permission from the State Department. Boeing said the information was not classified.

The suspension is a triple blow: first to Boeing which has suffered a decline in profits due to production and delivery problems; to the telecommunications industry, which faces launch capacity shortages for its satellites and to international co-operation in the space industry, a key US policy in the post-cold war period.

The action comes at a time of charges and counter-charges in Congress about the administration's go-ahead for the launch of an American satellite on a Chinese missile. Loral Space and Communications and a unit of Hughes Electronics are accused of disclosing sensitive information in an investigation into a failure of a Chinese Long March rocket.

An industry official said the State Department's decision was "painted with a big gold politics brush" as a result of all the criticism levelled at the administration.

The suspension will cause further delays to the project which had already delayed its planned launch date until early next year.

The consortium has been assembling the sea launch platform at the former Long Beach Naval Base in California.

Yesterday, it was reported that 30 to 40 Ukrainian and Russian engineers who had been working on the project-ing were leaving the country.

The rockets are constructed jointly by the Ukrainian factory Yuzhmash, which formerly manufactured the SS-18 nuclear missile, and Energia, which makes the Proton booster, the most powerful in the world. Yuzhmash and one other Ukrainian factory have a 15 per cent interest in the project, while Energia has a 25 per cent interest.

Ukrainian engineers from the Yuzhmash factory were surprised by the US objections to Boeing's role in the project, because according to them, they and their Russian counterparts were providing nearly all the rocket technology.

Boeing has a 40 per cent stake in Sea Launch, and is overall project manager, but the technology primarily is that of other nations. Alexander Loginov, the chief of Yuzhmash's laboratory, said. "Actually, it is Boeing that must guarantee that our know-how is protected."

Aside from Energia, Boeing, and Yuzhmash, the remaining 20 per cent of the venture is owned by Kvaerner, the Anglo-Norwegian company, which makes the floating launch platform.

Ukraine looks to extract commercial gain from Soviet military legacy

Charles Clover reports on Kiev's ambitions to resurrect large cargo aircraft and space launch industries from the ruins of the USSR defence machine

On the outskirts of Kiev, Ukraine, is a building crammed with machines designed to snap an aircraft wing in half, or puncture a fuselage.

It is the stress laboratory for the Antonov aircraft design bureau, built to test the strength of wings the size of a football pitch, and is the key to designing the largest aircraft in the world.

In the days of the Soviet Union, the Antonov design bureau was one of the showpieces of the communist world. And it genuinely still makes the largest aircraft on the planet, such as the AN-225, or "Mrya", which theoretically has a cargo capacity of 250 tonnes. A smaller Antonov aircraft, the AN-124 "Ruslan", holds the world commercial cargo record, for carrying 132 tonnes from Dusseldorf, Germany, to New Delhi, India.

Antonov is still one of the flagships for Ukraine's aerospace industry, which, despite setbacks after independence from the Soviet Union, is beginning to regain its worldwide prestige as the result of a series of new projects.

The Antonov factory has been negotiating to sell its latest design, the AN-70 cargo aircraft, to a number of European countries, in what could potentially be a multi-billion dollar investment deal.

Meanwhile, another Ukrainian enterprise, the Yuzhnoe rocket factory in Dnipropetrovsk, has begun making rocket boosters for a US-Russia-Norway-Ukraine commercial space venture. Called Sea Launch, it is expected next year to send its first satellite into orbit, despite the shadow cast over the project yesterday by a US decision to suspend the licence enabling Boeing, one of the partners, to participate.

In the days of the USSR, roughly a third of the Soviet defence industry was located in Ukraine. The Yuzhnoe missile factory also produced the deadly SS-18 and SS-24 missile systems, along with the Kosmos and Tsiklon rockets. And a number of other factories produced guidance systems, engines, and satellites for the Soviet military and space programmes.

"We had enormous scientific resources here. We could make anything," said Volodymyr Horbulin, formerly chief engineer at Yuzhnoe and now Ukraine's national security director, nostalgically.

But in 1991, military procurement spending was slashed by 80 per cent, and orders for new aircraft and missiles ground to a halt.

"We could put 300,000 people back to work if we could just restart our aerospace sector," said Mr Horbulin.

Antonov is beginning to regain worldwide prestige through new projects

But little by little, commercial benefits are being drawn from the Soviet military legacy.

After showing the AN-70 cargo aircraft at the Berlin air show in May, the Antonov executives have started negotiations with Daimler-Benz aerospace, the German aircraft maker, on the prospects of jointly manufacturing the AN-70.

Antonov has also suggested the AN-70 to eight European countries, including Germany, which have plans to design and manufacture a large European military cargo aircraft in a joint project, the so-called FLA, or future large aircraft.

"Europe could save $4-5bn by using our design," said Dmitri Kiva, Antonov's chief designer.

Although it is considered an outside contender for the contract, the AN-70 would cost roughly $50m per aircraft, cheaper than the estimates for the FLA of roughly $70m, not including design costs of billions of dollars.

One hurdle for Antonov to overcome, however, is the industry perception that their aircraft are unsafe. A now famous photograph of an AN-124 tailfin sticking out of a block of apartments in the Russian province of Irkutsk last year left a lasting impression. That crash, however, was attributed to frozen fuel, and Antonov executives vociferously defend their aircraft's overall record.

In the meantime, the other prestige project for Ukraine's aerospace sector is the Sea Launch project, led by Boeing, the US aircraft manufacturer, in which Ukraine has a 15 per cent interest. Sea Launch is a revolutionary idea to launch commercial satellites using a seaborne launching pad which can be placed directly on the earth's equator, to take advantage of the lesser gravitational pull in launching satellites high into geostationary orbit.

Ukraine's Yuzhnoe rocket factory is supplying part of the rocket, while Russia's Proton factory supplies an additional booster and Norway supplies the launch pad. Sea Launch already has orders to launch 18 satellites, and Ukraine is eyeing the commercial satellite market covetously.

According to Euroconsult, the French aerospace research house, more than $12bn worth of commercial satellites will be launched into low earth orbit by 2007. This would be a prime market for its Zenith rockets, also manufactured at Yuzhnoe.

"We intend to become major participants in the commercial space market," said Oleg Federov, chief of department of scientific research at the National Space Agency of Ukraine.

The AN-70: Antonov executives defend its safety record and say it could save Europe $5bn in design costs — Austin J Brown

NEWS DIGEST

WTO DIRECTOR GENERAL

Thai trade economist to be named as candidate

Supachai Panitchpakdi, Thailand's deputy prime minister and commerce minister, is to be nominated by his government as a candidate for the post of director general of the World Trade Organisation.

Mr Supachai, a noted trade economist, was influential in the Cairns group of agriculture exporting nations and has played a prominent role at the Asia Pacific Economic Co-operation (Apec) forum. He is expected to be the only candidate from Asia to succeed Renato Ruggiero of Italy, whose term expires next April.

Mr Supachai had been increasingly marginalised in Thailand's economic policy-making apparatus by Tarrin Nimmanahaeminda, the finance minister, and has expressed a desire to leave domestic politics. Ted Bardacke, Bangkok

JAMAICA TELECOMS

C&W set for clash on reforms

The Jamaican government and Cable and Wireless are heading for a dispute over attempts to dilute the UK company's telecommunications monopoly on the island. The government wants greater competition in some telecom services, but C&W claims its future investments in Jamaica have been made uncertain. C&W has a 79 per cent stake in Cable and Wireless Jamaica, and there has been local controversy over its monopoly to provide wired, wireless and value-added telecommunication services under a licence granted in 1987. While honouring the company's licences, the government wants competition in some services.

Jamaica has to reform its telecoms policy to meet World Trade Organisation rules to allow Jamaica "gainful participation" in the global information economy, Percival Patterson, the prime minister said. Cable and Wireless Jamaica, which has invested heavily in the island's telecommunications, said the government's plan was an "unsettling development" which "raises questions about Cable & Wireless' existing investments and places a great deal of uncertainty about the company's future investment programme in Jamaica". Canute James, Kingston

INVESTMENT IN VIETNAM

UK minister urges faster talks

Britain's trade minister, Brian Wilson, has warned Vietnam that it needs to speed up the pace of negotiations on big foreign investment projects if it wants to encourage continued investor interest. After two days of talks in Hanoi, Mr Wilson said he respected the caution which Vietnam displayed in its negotiations, but that foreign companies expected to achieve a positive outcome within a time scale which was comparable with other similar economies.

"It would be naive to suppose that particular markets don't have reputations and images," he said. "And it is obvious that companies and countries are watching and are aware of the pace and progress in Vietnam."

The visit to Vietnam included discussion of a $1.5bn offshore gas development project by an international consortium including BP and Statoil, which was first proposed in 1993 and which has been the subject of detailed negotiations for more than a year. Jonathan Birchall, Hanoi

INTERNATIONAL

UN refugee agency scraps mediator post

By Andrew Edgecliffe-Johnson

The United Nations High Commissioner for Refugees is axing the post of mediator, its neutral ombudsman. Anne-Marie Demmer, the current mediator, has published several highly critical reports about the organisation's management.

Mrs Demmer, who has been responsible for tackling the grievances of disaffected staff since the post was created in 1993, will step down next month.

Kris Janowski, a UNHCR spokesman, said yesterday that the current post was for a senior-ranking, and therefore expensive, official. He added: "We have to shrink because we have less money. We have decided to replace [the mediator] with some other structure which is not decided yet."

He stressed that the UNHCR would listen to Mrs Demmer's recommendations about her succession.

Staff expect Mrs Demmer's valedictory report – which is due to be completed within days – to criticise the management of the UNHCR for not implementing recommendations made in her earlier reports. The organisation last week rejected allegations in the Financial Times of management failings.

A copy of the mediator's last report, which was published in 1996 and distributed to all staff members, has been passed to the Financial Times.

The report highlighted concerns that staff have "a low level of confidence in the objectivity and fairness of management", that there is "a tendency in many parts of the organisation to consider staff 'guilty until proven innocent'," and that there is a "persistent lack of real attention and thus of resources devoted to staff training".

The report added: "The weakness of the investigative processes of the organisation is preoccupying also in relation to reports of sexual harassment... and in connection with the subsequent actions taken against the alleged perpetrators." The delays inherent in the existing disciplinary rules for dealing with such cases "have little or no disincentive effect," it said.

The report conceded that "change is in the air" but says that the initiatives launched to effect improvements within the UNHCR "have yet to translate into concrete, organisation-wide reality."

The mediator's 1996 report concluded with the hope that some of the causes of employees' difficulties may be systematically addressed by the "change management" programme introduced by the UNHCR in December 1995.

However, the UNHCR staff council has repeatedly voiced concerns in recent months that the management initiatives in general, and the change management programme in particular, have failed to change the organisation for the better.

Mr Janowski said that the management project, which has the aim of devolving more responsibility to staff in the field, was "extremely complex," and that it would take another one or two years to judge how successful it had been.

He added: "This is a big organisation which has been expanding rapidly and then shrinking. Shrinking is always painful, so you always have people who are unhappy."

In the three years between the establishment of the mediator's post and the 1996 report, Mrs Demmer wrote, more than 4 per cent of the staff had sought the mediator's help. She added that, of the 72 cases she investigated between June 1995 and May 1996, 17 led to "a review of the administrative actions which had been taken or envisaged."

AFRICAN BLASTS STRIKE AT US ALSO DEALS BLOW TO ECONOMY ALREADY SUFFERING FROM FALL IN TOURISM

Bombing shatters Kenyan hopes

By Michela Wrong in Nairobi

As relatives continued to bury at least 218 victims of last week's bomb blast, Kenya was yesterday beginning to measure the impact of the country's worst terrorist attack on an economy already hit by crisis.

Coming after an 18-month slump, the timing of Friday's explosion could not have been more damaging. "Things were limping along badly anyway," said an economic analyst. "This is the final shot in the head."

Even before the blast, stagnating foreign investment, an aid freeze by donors exasperated by top-level graft, El Niño's ravages on agriculture and the near-collapse of the tourism industry had prompted many economists to predict growth this year would be under 1 per cent after an already disappointing 2.3 per cent in 1997.

Now even that scenario looks optimistic. "I'd be surprised if growth isn't in the negative," said Robert Shaw, director of the Institute of Economic Affairs. "Overall this will increase momentum towards greater slowdown."

The immediate damage to Nairobi's infrastructure has still to be assessed, although yesterday while touring the bomb site Kenya's President Daniel arap Moi said the total cost could reach $500m.

The bomb – coinciding with a similar blast in Dar es Salaam – seriously damaged at least 30 buildings in the business centre and it is expected many small businesses may be bankrupted, as insurance policies in a city with no history of guerrilla attack rarely catered for terrorism. The Association of Kenya Insurers, under public pressure to be lenient, met on Monday to consider how to react.

Tourism is likely to suffer the biggest blow. The industry, accounting for up to 20 per cent of foreign exchange revenue, was just beginning to pick up after what Henry Kosgey, tourism minister, called its worst year since independence.

Kenya's tourist board has appealed to the US government to review the travel warning issued on Friday, which advised nationals to avoid Kenya and Tanzania because they would find no local back-up in countries where both US embassies are out of action.

The warning, which contrasted with an advisory from the British Foreign Office recommending travellers leave their plans unchanged as "repeat incidents" seemed unlikely, triggered fury in a country that already sees itself as the innocent victim of a dispute between Islamic fundamentalists and the US.

An editorial in the Daily Nation newspaper blasted what it described as an "impolitic and callous" move, saying Kenya took "great offence" at the advisory. "We trust that Americans are intelligent enough to treat this piece of ill advice with the disdain it deserves," it said.

American visitors rank only sixth in importance for Kenya, with the greatest share coming from Europe.

But tour operators worry that even without a negative advisory, TV coverage of the blast's aftermath will compound the negative image of Kenya arising from last year's ethnic clashes and a spate of gangster attacks in which westerners have died.

Kenya is estimated to have lost up to $400m in tourist revenue in the 12 months to July. Hotels on the coast have closed and 50,000 people in the industry have lost their jobs.

The latest bad news comes just as European customers turn their attention to winter bookings. "The tourist board has been busy promoting Kenya abroad and there were hopes we would see bookings up for the November to March high season," said an industry operator. "This knocks it all for six."

The government is poorly placed to ride out any further slowdown in economic activity. It is struggling to control a budget deficit likely to reach 4 per cent of gross domestic product against a target of 2.4 per cent. It is also desperate to reduce the huge domestic debt fuelling cripplingly high interest rates (interest rates on treasury bonds are about 25 per cent).

Kenya's government will hope that, given the exceptional circumstances, the US and other governments will soften the hard line taken since aid was frozen last August by the International Monetary Fund and bilateral donors.

Madeleine Albright, the US secretary of state, said on Monday Washington would discuss with Tanzania and Kenya ways in which the US could assist. But given the widespread perception that Mr Moi is still reluctant to crack down on corruption, a sea change in international attitudes to Kenya looks unlikely.

● The Kenya Society has set up a fund for the victims of the Nairobi bombing and their families. Donations can be made by calling 0870 901 4222 from UK, 00 44 870 901 4222 from other countries.

RISING TENSION UN FEARS SKIRMISHES MAY LEAD TO BIG GOVERNMENT PUSH TO DRIVE OUT UNITA REBELS

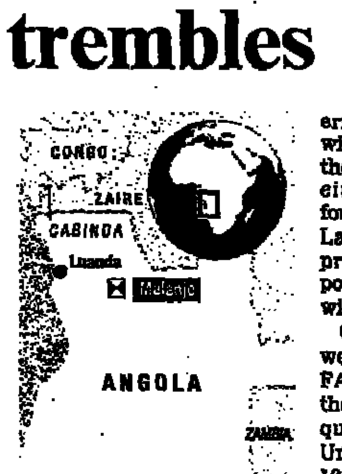
Angola trembles on brink of all-out war

By Nicholas Shaxson in Luanda

Further fighting has erupted in northern Angola in what United Nations officials fear may be a big new offensive by the Angolan Armed Forces (FAA) against the Unita rebels.

But so far the fighting does not seem to have spread to the central highlands further south, where Jonas Savimbi, the Unita leader, has his headquarters. As such it does not yet constitute the "final offensive" many have said is imminent.

The UN said the fighting was concentrated around Unita's main military base in the north near the town of Milando, just 75km (45 miles) south of the border with the Democratic Republic of Congo and 50km west of the country's richest diamond mining area in the Cuango valley.



State media have also reported a massacre at Kunda-dya-Base, 60km west of Milando, though the UN has recently accused them of false and hostile reporting.

It is not clear if the latest turmoil is a direct result of recent fighting in nearby Congo. But the Angolan government fears Mr Savimbi will exploit the conflict, even though he is not allied with either Rwandan-backed forces in eastern Congo, or Laurent Kabila, Congo's president, who came to power in Kinshasa last year with the help of the FAA.

Observers have said for weeks that the well-armed FAA were about to attack the central highlands headquarters of Mr Savimbi. Unita has an estimated 10,000-15,000 troops even though it officially demobilised under the 1994 Lusaka peace agreement.

Relations between the government and the rebels soured in June as scattered skirmishes broke out. They worsened when Alioune Blondin Beye, UN special representative to Angola, died in an air crash on June 26. Tension rose as each side blamed the other for another massacre in late July, less than 100km from Milando, in which the UN said at least 105 people had died.

The new fighting could herald a wider offensive against Unita because of government exasperation. It sees the negotiating proposals brought back to Luanda by Isaias Samakuva, Unita's chief negotiator, as further delaying tactics. Aid workers said the latest fighting erupted on Friday, just hours after his return.

But observers had also said that much of the earlier tension was intimidation by the Luanda government to force Mr Savimbi to withdraw peacefully from the central highlands. "The government firmly believes Savimbi will never make any concessions unless he is under a military threat," a diplomat said.

The attacks may remain limited to the diamond areas to put more pressure on Mr Savimbi to hand over his headquarters, thus implementing the last significant outstanding element of the Lusaka agreement.

"The extension of state administration to these areas implies he must return to Luanda," Mr Samakuva said. "And he is afraid for his life here."

Last year the FAA attacks in the north-eastern diamond regions, which also prompted predictions of all-out war, culminated in the official hand-over of most of Unita's main diamond mining areas. The fields had produced about half of Angola's estimated $1bn total output in 1997, but analysts predicted, even before the latest fighting, that Mr Savimbi would mine little more than $100m worth of diamonds this year.

Israelis lift block on UN N-talks

By Judy Dempsey in Jerusalem and David Buchan in London

Israel bowed to pressure from the US yesterday and lifted its objections to the start of United Nations-sponsored talks aimed at halting production of fissile nuclear bomb-making material.

Yesterday's shift by Israel, the last country to hold out against the talks, enabled the 61-nation Conference on Disarmament in Geneva to set up a negotiating committee to draft a treaty. The Geneva group includes the five established nuclear powers plus India and Pakistan which exploded nuclear weapon devices earlier this year.

Robin Cook, foreign secretary of Britain which takes over the chair of the disarmament conference next week, hailed yesterday's moves as "a significant breakthrough" towards the goal of a "comprehensive international treaty ending the production of plutonium and highly enriched uranium for nuclear weapons".

But remarks yesterday by Benjamin Netanyahu suggested that Israel may be simply buying time, or placating Washington in return for an easing of US pressure over the Middle East peace process, rather than becoming a serious negotiating partner in Geneva.

Mr Netanyahu insisted to his cabinet that Israel had "fundamental problems with the treaty", which would subject it to verification of its nuclear capability and weapons arsenal.

Negotiating a treaty halting fissile nuclear material production is likely to take several years. Members of the Geneva conference are divided on the scope of a treaty and its verification procedures. The established nuclear powers generally want it to apply only to future production, while many developing countries also want international inspection to apply to existing stocks of fissile material.

Japan's woes drive more to bankruptcy

By Alexandra Harney in Tokyo

Startling figures about Japan's personal bankruptcy rate released yesterday suggest that the country's economic crisis is taking a heavier toll on individual consumers than expected. The results put new pressure on the country's troubled financial system, which is already struggling under an estimated Y87,000bn ($600bn) in bad loans.

The number of personal bankruptcies in the first five months of this year jumped 38 per cent compared with the same period last year, according to a report by the Supreme Court. If the trend continues at its present rate, the number of people filing for bankruptcy will reach an all-time high of 90,000 this year, the court said.

Last year, 71,299 people filed for bankruptcy in Japan.

The results complete the picture of economic turmoil in Japan. Consumer demand has collapsed, corporate bankruptcies are at record levels, and the unemployment rate is the highest since the 1950s.

Corporate failures were one of the biggest reasons for personal bankruptcies, the study said. The number of Japanese companies that filed for bankruptcy climbed 29 per cent year-on-year to 1,741 cases in June, according to Teikoku Data Bank, a research group. The total debts associated with those failures increased 74.6 per cent over the previous year to Y1,363bn, Teikoku Data Bank said.

More people are filing for personal bankruptcy than in the past because of a wider public awareness and greater social acceptability of being bankrupt. Until recently most bankrupts would have chosen to run and hide from debt collectors, if not commit suicide.

The decline of construction activity, one of the sectors worst hit by the downturn, is particularly damaging as it employs 10 per cent of the workforce and accounts for nearly 15 per cent of national income.

At the same time, companies' attempts to reduce their payrolls have hurt individual finances. The unemployment rate is at a record 4.1 per cent, bonuses are falling at many mid-size companies, and the number of companies cutting jobs is increasing. This is especially striking in Japan, where companies have traditionally avoided redundancies and salary cuts.

Growing personal and company debt levels have led to increased demand for loans. But many Japanese banks, facing their own liquidity crisis, have tightened lending conditions. to

Debt rumours hit Indonesian rupiah

By Sander Thoenes in Jakarta

Indonesia's rupiah plunged yesterday on rumours of a sovereign debt default, but a senior minister insisted a freeze on principal payments had been agreed in advance with France and other donor countries as part of a planned debt rescheduling of official credits.

The rupiah lost Rp400 to the dollar in just 30 minutes on the London market, according to traders, following a news agency report that Indonesia had stopped paying principal on a loan provided by a French bank. It was down Rp250 at 13,200 to the US dollar in late London trading.

But an angry Ginandjar Kartasasmita, co-ordinating minister for finance, economics and industry, told the FT that Indonesia had not defaulted. "What we are doing now is implementing the agreement we reached with international debtors, on rescheduling our sovereign debt," he said.

Under its recent agreement with the International Monetary Fund, Indonesia promised to negotiate a debt rescheduling with several official creditors as part of its efforts to cover external cash flow requirements. The payments freeze is a standard part of such procedures. Bankers said yesterday's trouble arose because the plan had been poorly communicated.

A spokesman of the Indosuez banking group confirmed Indonesia had missed a deadline on principal payment on Monday but would not reveal the amount. "It was not something we had anticipated," he said, adding that other banks had also reported missed payments.

PROPERTY BLOW DECISION ON THIRD PHASE OF ROYAL ASCOT DEVELOPMENT AS HONG KONG STOCK MARKET REACHES FIVE-YEAR LOW

Leading developer pulls out of HK deal

By Louise Lucas in Hong Kong

Confidence in Hong Kong was further dented yesterday when the territory's biggest property developer withdrew from the expected expansion of a key residential project, sending more tremors through the property market.

Sun Hung Kai Securities said it "wished to hold these proposals in abeyance until the property market has stabilised", according to its partner on the project, the Kowloon-Canton Railway Corporation (KCRC).

The decision, which highlights developers' gloomy outlook for the market, puts a question mark over the future development of Royal Ascot, an upmarket development of about 2,500 flats in 10 blocks. Work had not begun on an expected third phase, although a feasibility study has been completed.

KCRC said yesterday it had no intention of delaying the project until Sun Hung Kai decided to return to the market, and was now exploring all viable options.

The latest blow came during another rout on the Hong Kong markets. Speculators continued their assault on the local currency, an attack that was waged for most of last week as the Japanese yen weakened, putting pressure on the Chinese renminbi and Hong Kong dollar. The stock market yesterday lost 3.6 per cent, hitting a five-year low.

Asset deflation is the price Hong Kong is paying for its tenacious maintenance of the currency peg, the linchpin of its financial system, which links the Hong Kong dollar to the US dollar at a rate of 7.8 to 1.

As share and property prices slump and interest rates rise, consumption has dried up, exacerbating the economic contraction.

Property prices have fallen some 40 per cent from the peak in July last year and analysts reckon there is scope for a further 30 to 40 per cent pruning of prices. Royal Ascot, a short trot from the Shatin race course in the remote New Territories, is a case in point.

Sun Hung Kai irked tenants last August when car park spaces were sold off for HK$880,000 (US$114,000), a record for car spaces in the New Territories. In October last year a coveted high-level 1,620 sq ft flat with views of the racecourse went for HK$19.2m, lower than the expected HK$20m.

Today KCRC said flats were going for around HK$5,000 per sq ft, or HK$3.5m for the smallest 700 sq ft flat without views.

See editorial comment

'River of Sorrow' hits China's industrial growth

Yangtze flooding has disrupted production but there is a flicker of hope, writes **James Harding**

Buildings at Jiujiang, Jiangxi province, left flooded by the Yangtze River yesterday AP

China yesterday reported a slowdown in industrial growth last month, following the most extensive flooding of the Yangtze River in more than 40 years, which has disrupted production and inundated large areas of the country.

Beijing said "the huge impact of floods and the forced shutdowns of enterprises in some areas" had caused the decline in output growth, underlining how the Yangtze crisis is dragging on China's economy.

Another surge of water has now swept down the central reaches of the river, but just spared the industrial hub of Wuhan, after frantic efforts to reinforce dam walls and divert flood waters to protect the city's 7m residents.

Officials yesterday warned that with further rains expected and river banks swollen after weeks of pressure, worse may yet occur.

Zhu Rongji, China's prime minister, was quoted earlier this week warning of the further potential dangers of collapsing river walls.

"The flood situation is very serious on the Yangtze River.

"There is a high possibility of cave-ins and crumbling along the main river dikes because of the long soaking period."

Yet, while more than 2m people continue to work along the banks of the Yangtze – China's ancient "River of Sorrow" – to prevent further damage and loss of life, the economists have already started counting the cost.

"Despite the scale of the tragedy, this will not affect the Chinese economy fundamentally and it will not be a factor affecting the Chinese currency," one western economist in Beijing said yesterday.

"It will not be a devastating blow. But it may cut part of a percentage point off the growth rate."

The State Statistical Bureau reported yesterday that industrial growth fell to 7.6 per cent year-on-year in July, compared with 7.9 per cent in June and 8 per cent in May. The flooding rather than the impact of Asia's financial crisis had been the main factor behind the slowdown.

Industrial output rose 7.8 per cent year-on-year in the first seven months of this year, markedly below the government's industrial output growth target of 11 per cent for 1988.

Beijing has already blamed the flooding, which has claimed more than 2,000 lives and caused more than $5bn-worth of damage, for shaving 0.4 percentage points off economic growth in the first half of the year.

However, the continuing drag on industrial output has raised alarm that the flooding may indeed put further strain on the Chinese economy, which achieved 7 per cent growth in the first half of this year and is struggling to hit the government's 8 per cent target for 1998.

"It is not over yet and it is unclear what the impact has been. Agricultural output in some provinces may be very badly hit and, especially if there is flooding in Wuhan, it could hit industrial growth further," the western economist said.

Agriculture has been the obvious casualty so far, as the relentless summer rains over the past two months have resulted in unusually fierce seasonal flooding that has forced the relocation of more than 14m people and left farmland, roughly the combined areas of England and Ireland, under water.

Broader economic concerns have also started to feed through into the stock markets.

On the Shanghai exchange, the index of "B" share foreign currency shares sank to a new low yesterday, driven down by fears over the weakness of the Japanese yen and worries that the floods will badly damage the performance of some listed companies in central China.

But some analysts suggest that in terms of China's economic performance there may be a silver lining.

Wang Guoxing, associate professor at Fudan University in Shanghai, said: "From the macro-economic point of view, the floods may lift domestic demand. The reconstruction of flooded areas, restoration of agricultural and industrial production and house building will be new stimuli."

China has pledged to increase infrastructure spending to lift the growth rate in the second half of the year.

The government has already committed RMB1.9bn ($229m) to fighting floods and to the provision of relief effort, funds backed by increasing international assistance.

The impact on industrial production might also not be as severe as feared, as this is the low point in the annual cycle, Prof Wang suggested.

But it all depended on when the flood waters would start to recede. "If flooding continues after mid-August, that will be a problem."

S Korea closes four life insurers

By John Burton in Seoul

South Korea yesterday shut four insolvent life insurers in a first move toward reforming the ailing insurance sector.

The four insurers, Kukje, Taeyang, BYC and Coryo, are relatively small. But the government warned that seven bigger insurers might also be forced to close if they failed to submit realistic restructuring plans to improve their financial strength.

The decision to close the insurers comes as part of a South Korean government programme aimed at helping sort out the problems of the ailing financial sector.

Operations at the four companies will be suspended for three months before they are merged with stronger insurers, including Samsung, Kyobo, Hungkuk and First Life, in an effort to prevent policyholders from suffering losses. An estimated 2,100 jobs will be lost as a result of the mergers.

However, the government decided to postpone the shutdown of two troubled general insurers, Korea Guarantee Insurance and Hankuk Fidelity, to avoid "a serious effect" on the financial sector. The two groups have more than 7m policyholders.

A total of 22 troubled insurers, including 18 life and four non-life companies, were recently forced to submit restructuring plans as part of the government's review of the financial industry. The government blamed the problems of the insurance sector on "excessive expenditure and the accumulation of non-performing loans" in an overcrowded industry.

The Financial Supervisory Commission has already shut five commercial banks and 14 merchant banks, specialising in short-term corporate lending.

Call for Philippine interest rate clarity

By Justin Marozzi in Manila

The Bankers' Association of the Philippines (BAP) yesterday urged the central bank and government to stop sending out mixed signals on interest rates amid growing fears of a policy drift under the new administration of President Joseph Estrada.

The call came as the central bank raised its overnight borrowing and lending rates by three percentage points to 18 and 20 per cent respectively, following a 2 percentage point increase on Monday.

Traders said the central bank's moves conflicted with the government's rejection of bids from financial institutions at the weekly auction of Treasury bills on Monday in an effort to prevent interest rates rising from the present level of 14 per cent.

"It would be good for both agencies to have a more unified strategy," said Deogracias Vistan, BAP president.

Gabriel Singson, central bank governor, defended the monetary authority's move to protect the peso, emphasising the lifting of overnight rates was temporary.

"If we did not do something about interest rates, I would expect the exchange rate to be 46-47 [pesos to the dollar] today," he said. "We would like the exchange rate to be determined by the market but a market that is not heavily influenced by speculation and panic." The peso yesterday closed stronger at 43.6 to the dollar against its opening at 44.35, Mr Singson added.

Analysts believe the government's rejection of all or most bids at recent Treasury bill auctions is unrealistic. "It is totally crazy that the government didn't accept bids on Monday," said Alex Connor, head of research at Indosuez W.I. Carr Securities. "I think the likelihood is that interest rates will have to go up."

In the past several days, regional concerns have rocked the Manila stock market and intensified speculative pressure on the peso, which until last week had been trading steadily at about 42 to the dollar.

On Monday, it touched a seven-month low of 44.8 to the dollar. Those anxieties have been compounded by the business community's fears of the Estrada administration's lack of direction.

Rifts show in Vietnamese leadership

An open letter alleging corruption reveals tensions in the party. **Jonathan Birchall** reports

Le Kha Phieu sees corruption as the 'greatest threat' AP

This time last year Pham The Duyet was the Vietnamese Communist party's clean-up specialist. After violent protests last summer against corrupt local officials in the northern province of Thai Binh, it was Mr Duyet, as politburo member responsible for mass organisations, who first went to the troubled areas to listen to the grievances of angry farmers.

The protests, during which mobs kidnapped policemen and vandalised government buildings, eventually led to the removal of the province's top party officials, prison sentences for some of the protesters, and renewed calls from the leadership to stamp out corruption in the party ranks.

Soon afterwards, Mr Duyet was elevated to the elite five-member standing committee of the Vietnamese politburo, in what some analysts saw as a reward for a job well done in Thai Binh.

But now the 63-year-old is himself in the spotlight, after the emergence of a letter from veteran party members in Hanoi accusing him of corruption.

The letter, sent to the party's top leaders on May Day, highlights complaints dating back to the early 1990s, when Mr Duyet was head of the party in Hanoi. It also draws an ironic parallel between the situation in the capital and events in rural Thai Binh.

On a regional scale, the allegations are hardly the stuff of headlines. The letter, signed by 11 party members, catalogues the kind of low level corruption and intimidation over access to land in Hanoi which would be considered run-of-the-mill by most Vietnamese.

"These are the sort of allegations you could make against virtually any provincial party boss, anywhere in the country," says one western diplomat in Hanoi.

But it is extremely rare for such detailed and specific allegations against a named top party leader to emerge in public.

The letter is also the latest in a series of signs of tension within Vietnam's one-party system, which have come against the background of Vietnam's growing economic difficulties as a result of the regional crisis.

The most vocal dissent has come from a 74-year old retired general and former party ideology boss, Tran Do, who issued a series of open letters appealing to the party leadership to implement widespread political reforms.

The party leadership has responded to this latest attack with a show of solidarity. Vietnam's foreign ministry emphatically denied that Mr Duyet is under investigation, while he himself promptly appeared in the local press going about business as usual.

On Monday, the conservative army newspaper, Quan Doi Nhan Dan, carried an article attacking wavering party members, including those who have "raised their voices publicly against the regime with the aim of seizing power". Mr Do's calls for political reform have been dismissed by one party leader as "a recipe for chaos".

Some political analysts in Hanoi argue that the recent letter is evidence of an internal politburo power struggle. Others, pointing to the damage done to the entire system by the charges, see a party-wide split between the current leadership and an earlier, "purer" old guard.

But what the letter does demonstrate is that in the absence of an organised opposition, internal dissent within the party remains the main challenge to its grip on power. And by raising the issue of corruption, the dissenters are now touching on an issue which, as Thai Binh demonstrated, can mobilise popular discontent against the party.

After the trouble in rural Thai Binh, the party pledged to improve "grass roots democracy" in order to improve the public accountability of local officials.

The party's general secretary, Le Kha Phieu, subsequently identified "corruption and the deterioration in the moral behaviour" of officials as the "greatest threat" to Vietnam's social stability.

But the party still faces the dilemma of policing itself, and of persuading ordinary people that the higher echelons are some how exempt from the manifest failings of the lower ranks.

The 11 party veterans who signed the attack on Mr Duyet aren't convinced. They called on Mr Duyet and the deputy chairman of the Hanoi People's Committee to declare their personal wealth, in order "to regain for the party the trust of its members, and of the people," and warned that if the party didn't match its deeds with its words, "it would be cursed for years to come".

NORTHERN IRELAND HOUSE SPEAKER SAYS HE IS OPTIMISTIC ABOUT IMPLEMENTATION OF PEACE AGREEMENT

Gingrich calls for end to 'posturing'

By John Murray Brown in Dublin

Newt Gingrich, speaker of the US House of Representatives, yesterday urged Northern Ireland politicians to abandon their "posturing and appealing to the extreme elements" and to implement the peace agreement reached in April.

He was speaking in Belfast, the capital of Northern Ireland, on the first day of a three-day visit to the region with seven members of Congress. He has already visited the Republic of Ireland.

In an apparent reference to demands by pro-British unionists for "decommissioning" of Irish Republican Army weapons, he said: "Our message is very clear, and the agreement is clear. The agreement stands and it needs to be implemented." The agreement says only that parties should "use their influence" to achieve decommissioning within a two year time frame.

It would take "a lot of arguing, a lot of talking and a lot of posturing", Mr Gingrich said. "That's the nature of a free society, but I do think that steps have been taken to move in the right direction and I think I'm very cautiously optimistic."

While the timing of the trip meant many of the leading local poltiicians, including Gerry Adams the Sinn Féin president, are away on holiday, Mr Gingrich's visit is further evidence of the support among US politicians for the April accord setting up a power sharing assembly and accountable institutions linking Northern Ireland with the Irish republic.

Yesterday he met Mitchel McLaughlin, chairman of Sinn Féin, the political wing of the IRA, and Billy Hutchinson, of the "loyalist" Progressive Unionists, the political wing of the banned Ulster Volunteer Force.

The Speaker is due to hold talks with Dermot Nesbit from the Ulster Unionists and separately with Nigel Dodds, of the hardline Democratic Unionists, today.

Unionist politicians – and opposition leaders in the Republic – have this week stepped up calls on Sinn Féin to declare the IRA's war over. But Mr McLaughlin said he had used yesterday's meeting to "impress upon the American delegation that while we have an agreement in place we have not yet created a political settlement".

Mr Gingrich was anxious to avoid controversy and sidestepped questions about whether his trip was connected with his mooted bid to stand as a presidential candidate.

It was unclear yesterday whether the Rev Ian Paisley, leader of the Democratic Unionists, would be in Northern Ireland for today's meeting. Mr Paisley has boycotted other visits by US political figures, all of whom he believes are promoting a pro-Sinn Féin agenda.

● Northern Ireland police confirmed yesterday that an explosion last week near the border with the republic had been caused by a bomb. Secnrity sources believe republican dissidents may have been testing the device.

Electoral reform agenda may avoid radical prescription

The prime minister's office is assenting to a diluted form of proportional representation. Liam Halligan reports

Jack Straw, home secretary (left), opposes change in the electoral system while Robin Cook, foreign secretary (centre), favours it. Lord Jenkins (right) is soon to offer advice to the government

It is perhaps no surprise that the governing Labour party's policy document on proportional representation was leaked in the quiet month of August, when most MPs are away from London.

The decision of the party's ruling National Executive Committee to reject voting systems "geared towards pure proportionality" might appear vague. But it represents a significant move in the behind-the-scenes negotiations on electoral reform for the British parliament.

It emerged over the weekend that the NEC's submission to the commission, headed by Lord Jenkins, rejects many of the criticisms of the status quo. Lord Jenkins, better known as Roy Jenkins, is a former Labour cabinet minister and past president of the European Commission. He is now a senior figure in the pro-European Liberal Democrat party.

His commission is expected by late October to propose an alternative to the existing first-past-the-post system for elections, in which seats in the House of Commons are won by the candidates with the biggest number of votes – even if they fail to win a majority of votes cast.

The NEC document, completed two weeks ago, reminds those campaigning for change that much of the Labour party opposes it. Tony Blair, the prime minister, could face a difficult choice when Lord Jenkins, a mentor of Mr Blair, delivers his verdict. The government has pledged to hold a referendum pitching first-past-the-post against an alternative but it is not bound by Lord Jenkins' recommendation.

The NEC has no power over Mr Blair. But its report, cleared by the prime minister's office, puts pressure on Lord Jenkins to avoid radical variants of PR such as the single transferable vote, under which MPs are chosen in multi-member constituencies. This is one reason why it was slipped out during the summer.

The anti-change tone is embarrassing because it highlights the cabinet split on PR. Some senior figures, such as Robin Cook, the foreign secretary, feel the existing system is undemocratic and incompatible with a modern constitution. Others, such as John Prescott, the deputy prime minister, are vehemently opposed to change, arguing against anything which breaks the traditional relationship between MPs and single-member constituencies.

Tony Blair is keen to keep the pro-European Liberal Democrats engaged in 'constructive' opposition

But the main reason the NEC report could cause shock waves is that it will anger the many Liberal Democrats who are nervous about their party's continued convergence with Labour - personified by the close relationship between Mr Blair and Paddy Ashdown, Liberal Democrat leader.

Mr Blair is keen to keep the Liberal Democrats, the second-largest opposition party after the Conservatives, engaged in "constructive" opposition. He has held out the promise of PR – the ultimate prize for a third party that suffers disproportionately under first-past-the-post.

Liberal Democrat officials insist they are "relaxed" about the NEC report but party activists are worried that Labour will eventually propose a referendum on the alternative vote system, where voters rank candidates in existing constituencies and preferences are reallocated until a majority winner emerges.

Most constitutional reformers say AV amounts only to a watered-down version of PR. They insist it produces outcomes in which the link between votes gained and seats won is even more tenuous than under first-past-the-post.

But AV may be enough to fulfil Labour's needs – to keep to its electoral reform pledge and to change the voting system enough to undermine the Conservative party, which was in power for 18 years until ousted by Labour last year.

By arguing against "purer forms of PR" the NEC has signalled – with Downing Street's tacit consent – that radical reform is off the agenda.

Optimistic Liberal Democrats argue that Labour's commitment to electoral reform was demonstrated by legislation this year enabling Britain to hold the 1999 elections to the European Parliament under PR.

But cynics say Jack Straw, the home secretary and perhaps the government's most staunch opponent to change, insisted on a "closed list" PR variant – in which voters are limited to choosing parties rather than candidates – precisely to undermine PR in the eyes of the electorate.

Were Mr Blair to opt for AV, he would have to square his choice with Lord Jenkins, who has indicated privately he is likely to recommend something more radical.

But this could be solved by the rapid introduction of AV as a first step, possibly before the next House of Commons elections in 2001-02, given that the reform requires no contentious changes in constituency boundaries. Promises of future reform may keep the Liberal Democrats, including Lord Jenkins, on board during a second Labour term.

Airline slots dispute divides ministers

By George Parker, Political Correspondent

John Prescott, deputy prime minister and chief transport minister, yesterday intervened unexpectedly in the dispute over the terms of the British Airways-American Airlines alliance.

Mr Prescott put himself on a potential collision course with Peter Mandelson, chief trade minister, when he said the two airlines should not profit from the disposal of 267 weekly landing slots at Heathrow and Gatwick airports, valued at around £500m ($825m).

Mr Prescott agreed with Karel Van Miert, EU competition commissioner, that the airlines should surrender the slots to rivals without charge. "I have always been clear in my mind that the slots don't belong to BA – they belong to the community," he said on BBC Radio.

Mr Prescott's intervention was seen as a deliberate attempt to force the hand of Mr Mandelson, who has the final say on the alliance and will make his decision on September 4. Officials admitted it might have been better for the deputy prime minister to have made his views known privately as part of the consultation process.

One of the chief trade minister's allies said: "Mr Mandelson has a quasi-judicial role in this issue, so the views of colleagues are not an issue."

Mr Mandelson last week published a report into the alliance by the Office of Fair Trading, the UK's competition watchdog, which concluded the airlines should be allowed to sell the slots.

Some trade department officials said some airlines buy and sell them already, suggesting that Mr Mandelson was inclined to accept the OFT view. The department stressed that no decision had been taken.

Mr Prescott yesterday said he had a right to speak on the issue as the minister with responsibility for the aviation industry. But his intervention, less than 24 hours after the Mr Mandelson left for his summer holiday, was reminiscent of the simmering feud between the two last summer. They were both left to "mind the shop" last year while Mr Blair was in Tuscany, but they both ended up squabbling over who was really in charge.

See Editorial Comment

NEWS DIGEST

EXECUTIVES' REWARDS

Concern over 18% pay rises in privatised utilities

Stephen Byers, the chief secretary to the Treasury, yesterday said executive pay in the privatised utilities had jumped by 18 per cent over the last year. He based his comments on a survey in Utility Week magazine. "People must recognise that today's excessive pay increase could be tomorrow's interest rate rise or mortgage increase," Mr Byers said. "That is why the government warned that it would consider taking action to increase shareholder control over directors' pay unless there is a more positive approach by all companies."

The survey in the magazine showed a 15 per cent rise across the utility sector. "The figures also show some individual chief executives receiving pay increases of over 40 per cent," the Treasury said. "Where performance has not been outstanding, it should not be rewarded," Mr Byers added. **David Wighton, London**

CHANNEL FREIGHT LINK

Railtrack raises bid for aid

Railtrack, the privatised owner of most of the nation's rail infrastructure, is increasing its bid for government subsidies to help build a rail freight link between Scotland and the Channel tunnel between England and France. The company believes it will need more than the £150m ($247.5m) mooted to complete the project. But it is confident that John Prescott, deputy prime minister and chief transport minister, will find the money to help achieve his goal of shifting freight from road to rail. Government auditors completed a three-month scrutiny of the project last week and will be discussing their findings with Mr Prescott over the coming weeks. Railtrack wants to start work on the link soon so it coincides with the upgrade of the west coast main line from London to the Scottish city of Glasgow. **George Parker, London**

TRAIN TRAVEL

Vandalism 'endangering life'

Increasing vandalism on the railways means it is only a matter of time before it causes a fatal accident, according to Frank Davies, chairman of the Health and Safety Commission. Mr Davies, commenting yesterday on railway safety statistics for the year to April, said they showed a "very worrying" increase in vandalism. "Last year we were appalled to find 51 per cent of all train accidents had been caused by vandals," he said. "This year I am horrified to see that the proportion has increased to 61 per cent. This has led to a rise in the number of train accidents from 1,753 to 1,864." **Andrew Bolger, London**

ENVIRONMENTAL IMPACT ASSESSMENTS

'Wake-up call' to companies

Michael Meacher, the environment minister, has written to the chairmen of 120 of the UK's biggest companies exhorting them to reduce their impact on the environment. The letters are designed as a "wake-up call" for companies, particularly in the service sector, that tend to underestimate their impact on the environment. None of the companies, all among the UK's biggest 350, comments on their environmental performance. Mr Meacher invites them to "engage seriously" with environmental issues. They should discuss their environmental strategy at their next board meeting, declare a policy and publicly report on its progress. The assumption of service companies that their business has little impact on the environment is incorrect, he says. All businesses generate waste and consume fuel. **Vanessa Houlder, London**

FOOD SAFETY

Inquiry ordered into milk

Nick Brown, the agriculture minister, has ordered an inquiry into the safety of milk, amid fears that some dangerous organisms may be able to survive pasteurisation. Provisional results from a small number of tests have shown that an organism linked to Crohn's disease, an infection of the intestine in humans, can survive the heat treatment of milk. Research had suggested the organism was killed by pasteurisation. *Despite the findings, the* government's health department said there was no need to change dietary habits. The organism, mycobacterium paratuberculosis, is the cause of Johne's disease, a disorder in cattle, and one of several factors suggested as a cause of Crohn's disease. Jeff Rooker, the food safety minister, said pasteurised milk was safe, but said the government was making "doubly sure" with a survey into the possible link between bacteria in milk and Crohn's disease. **George Parker, London**

THE ECONOMY CONFEDERATION OF BRITISH INDUSTRY REPEATS CALL FOR INTEREST RATE CUTS

Employers say they are in 'recession zone'

By Richard Adams, Economics Staff

The slowdown in manufacturing has spread across the UK to a degree last seen in the recession of the early 1990s, the Confederation of British Industry, the biggest employers' lobby, said yesterday.

But CBI analysts contrasted the likely effects of the current slowdown on the economy as a whole with the depth of the recession in 1991-92.

"We are in the recession zone, but are likely to have a couple of quarters of little or no growth, rather than five or six quarters of decline as in the early 1990s," said Sudhir Junankar, the CBI's associate-director of economic analysis.

Mr Junankar repeated the CBI's call for the Bank of England, the UK central bank, to cut interest rates, saying the monetary policy committee needed to be "ahead of the curve" in cutting rates as well as raising them.

The CBI's figures were a regional breakdown of its earlier industrial trends survey, published last week. The detailed figures show that manufacturing orders are in decline in each region.

Employers in the south-west of England have suffered the biggest fall in orders in the last four months. A negative balance of 47 per cent – the difference between those with falling orders compared to those with higher orders – was recorded in the region. The UK average was a negative balance of 17 per cent.

Orders in the north-west, Wales, Scotland, northern England and the West Midlands were also very strongly negative. As a result, optimism for the next four months is particularly weak in those regions.

The number of workers employed in manufacturing fell in every region of Britain except eastern England.

In the prosperous south-east, total orders have fallen for the first time in five years, "suggesting that falling demand is now spreading into domestic markets", the CBI said.

Neil Blake, research director of Business Strategies – which conducted the survey with the CBI – said many manufacturers were suffering from weak domestic as well as export orders.

The data also showed that the economic turmoil in Asia was beginning to make a serious impact on exporters in some regions. A growing number of manufacturers in the south-west, the south-east and the north-west all noted "political and economic conditions abroad" as likely to limit export orders.

See BOC Job Losses in Companies & Markets

PROFESSIONS *LAW FIRMS, HEADHUNTERS AND ARCHITECTS SEEK TO BUILD BRANDS SO DISTINCTIVE THAT HARD-PRESSED COMPANIES WILL PAY EXTRA FOR THEIR SERVICES*

Accountants consider selling themselves like cans of beans

By Jim Kelly in London

Can professional services really be sold like baked beans? Ernst & Young, one of the UK's Big Five accountancy firms, intends to spend $100m next year building a global brand with the help of an advertising agency whose clients include Coca-Cola, Mars and General Motors.

The statutory audit is already seen as a commodity by many of the companies forced to buy it. The aim of professional firms is to build a brand so distinctive that hard-pressed companies will pay extra for it.

"In the past the big accountancy firms were made up of federations which shared a letterhead and a culture. Now they want to be like Marks and Spencer," says Robert Jones, a professional firms branding expert with Wolff Olins, in London.

Ernst & Young – and DMB & B, its advertising agency – is not alone in thinking it can build a global brand. Andersen Consulting, the management and IT consultancy, announced this year that it was spending $100m on brand building – including its own signature tune. Deloitte Touch Tohmatsu has launched a negative campaign against its rivals. Pricewaterhouse Coopers, the new giant firm, is considering a big advertising blitz. Formation of the new firm has reduced the Big Six to a Big Five.

Other professional firms are also showing interest: law firms, investment banks, consulting engineers, architects and headhunters. But at the moment it seems only the accountants are prepared to make the necessary investment, prompted by consolidation in the sector and globalising clients.

"More than 70 per cent of the Fortune 500 companies we talked to in a recent survey said branding is increasingly important in helping them to choose where to get a service," said Mr Jones. "They want to be able to tell who is good at what. They increasingly realise that nobody is good at everything."

The problem for the firms is that they do not sell baked beans but a diverse set of sophisticated services. David Maister, the guru of the professional sector, believes there is an inherent barrier to creating a brand premium in a professional firms.

He argues that people pay a premium for Campbell's soup because it delivers what it promises more than 99 times out of 100. If that reliability drops to 70 per cent the brand value simply evaporates. "It's 99 per cent or its nothing. The firms have a long way to go to get brand premium because they do not have the internal controls to deliver every time."

Instilling global partnerships with the kind of disciplines that underpin a brand is the challenge facing the managers of the Big Five. The old boast that they provide a "seamless global service" is viewed with suspicion by many clients who want solid evidence and not platitudes.

Three obstacles lie in the way. National partnerships value their ethos, which promotes individuality over "corporate" discipline. The constraints of regulation and culture mean it is difficult to get national partnerships to work smoothly under one set of values. And finally the diversity of the "one-stop shop" model – offering businesses everything they want under one roof – makes specific branding impossible.

"The ones who succeed are the ones who will take a risk," says Mr Jones. "They need to get across a complex and sophisticated message. You just can't have a slogan and nothing else."

In the long run, Mr Jones believes, big professional firms can be galvanised to promote a single brand. "You can take 100,000 people and put them in a stadium and get them to feel like one crowd – it is possible."

Mr Jones points out that the drift towards more "corporate" management structures may help in brand building. He notes that firms that have strong cultures often have a high ratio of staff per partner, allowing the imposition of behavioural patterns downwards. Both Arthur Andersen and Andersen Consulting are good examples.

Top legal advisers in UK public takeovers, Jan-Jun 1998

Firm	No of deals	Value £m
Linklaters	15	15,850
Slaughter and May	26	15,737
Freshfields	18	14,897
Clifford Chance	16	9,983
Norton Rose	16	8,522
Skadden Arps Slate Meagher & Flom	4	6,454
Herbert Smith	14	5,703
Lovell White Durrant	9	5,339
Allen & Overy	5	3,290
Stephenson Harwood	3	1,098

Ranked by value of transactions based on completed and failed offers for UK public companies. Source: Acquisitions Monthly

US law firm joins City of London's takeover top 10

Skadden Arps Slate Meagher & Flom is the only US law firm in the league table of legal advisers on UK public takeovers in the first six months of 1998, despite the influence of the US investment banks in recent UK takeovers, **Robert Rice writes.**

Three leading City law firms continue to dominate the league, produced by the trade magazine Acquisitions Monthly. Linklaters, Slaughter and May, and Freshfields have dominated the legal advice on UK public takeovers for five years. Slaughter and May is the most consistent performer, having topped the league tables in 1993, 1994 and 1997. Linklaters emerged as the leading legal adviser in the first half of 1998, having advised on 15 deals with a combined value of £15.9bn ($26.2bn). The firm was involved in the two biggest deals of the first six months, acting for Commercial Union in its £6.8bn merger with General Accident and for PacifiCorp on its failed £4.3bn bid for Energy Group, the UK's biggest electricity supplier. Despite the transatlantic nature of the EG bid – PacifiCorp's rival was Texas Utilities, which won – Skadden was the only US firm in the top 10. It was also involved in Cendant's £801m acquisition of National Parking and was placed sixth in the league.

THEATRE IN ONTARIO

Classic acting in modern drama

The Stratford and Shaw festivals provide a kind of Canadian super-rep company, writes **David Murray**

The sumptuous Stratford and Shaw Festivals co-exist happily in Ontario. Many an actor plays a season or two (or four or five) at the one, before proceeding west to Stratford or east to Niagara-on-the-Lake and often back again. The faithful who visit both festivals are thus watching a kind of super-rep company, with the attendant pleasure of seeing familiar spirits constantly inhabiting new *personae*.

Yet for all that, the Shaw festival *feels* different from Stratford's: more focused, more of a piece. If the difference isn't in the actors, neither is it a matter of repertoires: though Niagara's is confined to plays produced (anywhere) during G.B. Shaw's lifetime, those are easily as various as what Stratford digs up.

One clue is that Christopher Newton has been running the Shaw brilliantly for 19 of its 37 years, whereas Richard Monette has guided the older festival for a mere five. Each directs only a couple of plays, but Monette lets his other directors chance their arms rather freely, where I suspect that Newton keeps a sharper senior eye on what his hired hands are doing.

More pertinently, the Shaw festival wants actors who can play *Shaw*, who can be persuasively articulate. That would be an asset in Shakespeare, too – but at Stratford, Shakespeare keeps only one foot on centre-stage, and good verse-speaking is not what their popular "modern classics" require. The older generation of Canadian and British actors do it in style; some of the younger ones are in dire need of the "Classical Theatre" schooling that Stratford is about to inaugurate.

Stratford's modern plays this year range from excellent to competent to rather dim. *Waiting for Godot*, revived in Brian Bedford's 1996 staging on Ming Cho Lee's stark set, lets Tom McCamus and Stephen Ouimette sport their third double-act of the season, as Beckett's Didi and Gogo. There is a strong vaudeville element – bursts of revue-routine, sound effects like silent-film accompaniments; the play still exercises all its disconsolate fascination, with good jokes.

I thought Ouimette played the first act too much on one note of sullen rancour, but he sprang to life in the second. The Pozzo and Lucky (James Blendick and Tim MacDonald) were rather tame, not quite the alarming cartoons that they ought to be. *Waiting for Godot* was still a wrenching experience: the more so, perhaps, because of Bedford's occasional flat reductions into blank comedy, which suggested an infinitely bleak void behind the action.

Of the other "modern classics", William Gibson's *The Miracle Worker* is a rawly crafted piece, though it had us all dabbing our eyes when young Helen Keller discovers her first word. She went on to discover a lot of other words with implausible alacrity; probably we were expected to keep crying, but we didn't. As Helen, blind and deaf, young Trish Lindstrom was nicely convulsive, and Cynthia Dale sparkled as her plucky young Irish teacher.

Robert Bolt's *A Man for All Seasons*, about Sir Thomas More's trials under Henry VIII, belongs to a superior category of drama: not quite Shakespeare, but alert to a certain human condition – embattled honesty, fencing to survive, ultimate resignation. Douglas Rain infused More with sweet, luminous decency, downplaying More's (and Bolt's) pedantic relish for the legal casuistry that might have saved his skin.

The team of supporting actors was sound. Casting the Duke of Norfolk, however, as a black actor with Caribbean intonations (Roy Lewis, stoutly effective) was a PC excess. When Stratford is otherwise so sedulous about appearances, including costume details and period hairstyles, what is the point of introducing somebody who is visibly, jarringly wrong in the context?

A strong vaudeville element: Stephen Ouimette and Tom McCamus in 'Waiting for Godot'

At the Tom Patterson Theatre, Chekhov's *The Cherry Orchard* had its moments, but none of them cohered. Diana Leblanc's production was slow, soggy and shapeless, and used a flip American translation by John Murrell. Any mention of a serf or a peasant came out as "a country boy" – not the same thing at all.

Canadian classlessness is awkward in Chekhov. The status of Yasha and Dunyasha, the uppity servants, remained obscure; at the interval many of the audience were wondereing who all those people *were*. Several actors seemed to belong in different plays. With a prim, actressy Ranyevskaya, a dully charmless brother Gaev and a surly Varya, the great moments in Acts 3 and 4 went for very little. In the crucial role of Lopakhin, James Blendick's usual affable, laid-back performance was just inadequate.

The Night of the Iguana, Tennessee Williams' last Broadway success, deserved a revival, and in this same theatre Antoni Cimolino did it proud. Beautifully set and lit by Guido Tondino and Steven Hawkins, it was astutely sympathetic, more concerned with the real matter of the play (essentially autobiographical) than with its sleazy-glamorous surface.

Geordie Johnson played "Reverend" Shannon, the ruined stud, with a nice blend of charisma and glum despair, complemented by Lally Cadeau's tough, slatternly hotel-keeper. But it is Hannah, the itinerant quick-sketch artist, who must bring everything into wise, temperate focus; and in the long third act Seana McKenna did that superbly – gently, quietly, with precise intelligence. A radiant performance: like Rain's Thomas More and Diane D'Aquila's Paulina in *The Winter's Tale*, worth going a long way to see.

'A Man for All Seasons' and 'Miracle Worker' are in repertory until November; the other plays close in mid-September.

Pussy-footing passion puts out fire of love

Andrew Clark is disappointed by the debut of two hot properties in Seattle's 'Tristan'

Wagnerites in search of an alternative to the sclerotic Bayreuth festival have been heading west this summer. Their destination is Seattle, a city with a burgeoning Wagner tradition. Over the past quarter of a century, the Seattle Opera has developed a strong reputation for performing *The Ring*. But before the company contemplates a new *Ring*, the first two instalments of which are due in 2000, it has pulled off a coup: the debuts of Jane Eaglen and Ben Heppner in *Tristan und Isolde*.

In a world short of beautiful Wagner voices, Eaglen and Heppner have become hot property. Aficionados have charted their individual successes with mounting enthusiasm, and the chance to hear them together in the ultimate hymn to romantic love seemed heaven-sent. By securing Eaglen and Heppner, Speight Jenkins, Seattle Opera's general director, stole a march on other major companies. Most of this month's 10 performances in the 3,000-seat Seattle Center Opera House are sold out.

Judging by first-night reactions, you would think Eaglen and Heppner were the long-awaited successors to Flagstad and Melchior, Nilsson and Vickers. In a country with a compelling need for stars, few seemed willing to ask the obvious question: however impressively the new couple might *sing* Tristan and Isolde, could they *act* the parts? Unlike their illustrious predecessors, Eaglen and Heppner gave not so much as a hint of psychological identification with their roles, nor a trace of emotional abandon – which any true interpreter must convey. These may be early days for both singers, but the signs are not encouraging.

What is required is not some radical transformation of acting style; with singers of such ample girth, that is probably asking too much. No, the only prerequisites are a sense that, in the Act 1 Narration and Curse, the interpreter of Isolde is using words and vocal line to suggest the battle taking place in her heart; that the Act 2 love-idyll represents a union transcending worldly pleasure; in Act 3, that Tristan has reached the limit of what is bearable in life.

Eaglen and Heppner did not seem remotely concerned with these issues; theirs was the kind of pussy-footing passion that flourishes in a recording studio. Both were supremely audible and, thanks to Armin Jordan's light-footed conducting, never under strain. But while we luxuriated in the bel canto sweetness of the music, we remained at one remove from the drama.

As a feat of vocalism, Eaglen's performance is worth studying. She may have none of Flagstad's matronly tone, and little of Nilsson's steel, but she has qualities of her own: a pure and crystalline timbre, a majestic top, a refusal to linger at climaxes. Everything is sung legato. She may *look* hefty, but she does not *sing* hefty. There was a confidential intimacy in the Narration, a clarion control in the anticipatory heat of Act 2, an unflinching evenness in the *Liebestod*. She sounded so fresh at the end, she could probably have done a repeat performance there and then.

In stand-and-deliver mode: Ben Heppner and Jane Eaglen as Tristan and Isolde — Gary Smith

Unlike Eaglen, who did little but stand up and sit down, Heppner at least proved nimble on his feet, and made an attempt, albeit modest, to lend credibility to Tristan's Act 3 ravings – without the bloody bandages that usually decorate this scene. He was equally the master of legato; in fact, his was an extremely intelligent vocalisation, with a lyrical timbre not unlike the young Siegfried Jerusalem. But he lacked the burning heart. This Tristan sounded deferential, faceless, like the ideal civil servant.

No one is in danger of getting carried away in this *Tristan*, and the absence of a nerve-centre in Francesca Zambello's staging is largely to blame. Faced with two heavyweight singers, she evidently could not decide whether to portray the action as naturalistic or transcendental, real or mythical. The result is cold, controlled, occasionally comical. The protagonists stand and deliver, hand in hand, while the fire of love rears its head as a side-show. The drinking of the potion looks like a tea-break; "O sink hernieder" is a cramped cuddle on a couch, and even when Tristan does kiss Isolde, he does so on the hand or the forehead.

These are not the only curiosities. Brangaene, not Isolde, extinguishes the light in Act 2, contradicting the letter and spirit of the text. And at the final curtain the comatose Tristan puts his arm round Isolde; with a sign of life like *that*, she should be jumping for joy instead of committing herself to a "love-death". I'm not suggesting every *Tristan* should be an expressionist outpouring: the music tells us all we need to hear. But unless the singers convey, however inwardly, that longing for "eternal oblivion", the whole exercise is still-born.

Yet there is much to admire in the way Zambello's regular designer, Alison Chitty, has framed and focused the action within the sprawling width of the Seattle proscenium. I liked the rainbow-coloured postmodern sets more than the jumble of costume styles. And everything is superbly lit by Mimi Jordan Sherin.

The supporting cast go some way to suggesting what this *Tristan* could have been. Peter Rose's Marke – youthful but dignified, and entirely free of mannerism – pours out his lines like a Lieder singer. Greer Grimsley is the commanding Kurwenal. Michelle de Young a promising Brangäne. With a conductor as experienced as Jordan, it is no surprise to encounter a performance as unerringly paced and textured as this. But like the staging, it is the opposite of explosive. That's why this *Tristan* is such a damp squib.

MUSIC THE PROMS

Protest falls on deaf ears

Who said nobody cares about modern music? Somebody cared a lot about the late night Prom on Monday – so much that they decided to disrupt it with a demonstration. A few minutes into the concert a portable alarm was let off in a second tier box and the stalls were showered with leaflets from above.

The most entertaining aspect of all this was watching the expression of panic on the face of the BBC announcer, as she wondered what to tell the mystified audience who were listening to the event at home on the radio. The performers carried on, their concentration apparently undisturbed. Simon Rattle and the Birmingham Contemporary Music Group are professionals who have a good record of putting the music first, despite what the author of the leaflets might want us to believe.

As soon as the performance of Knussen's brief *Coursing* was over, there was an ungainly dash for the leaflets that had fallen within reach. Sad to say, they were nothing but poison pen letters, directed at influential people in the classical new music business. It would seem that some jaundiced soul wanted to get a piece of their own played at the BBC Proms and had it rejected, probably for a very good reason if the written English style was anything to go by. If you want to create a splash, at least try to get the grammar right.

Having been so rudely interrupted the first time round, the performers gave us the Knussen again ("We rehearsed a long time on this", complained Rattle indignantly). Thomas Adès followed as conductor and piano soloist in his own *Concerto Conciso*, a BCMG commission from last year, which arguably tries to pack too much self-conscious novelty into its concise concerto form. Simon Holt's *Lilith*, first performed by the BCMG back in 1990, was more persuasive and displayed a sure touch at writing virtuoso music for a small group of expert musicians (splendid solo clarinet, in particular).

The main new piece on the programme was Colin Matthews's *...through the glass*, written in 1994 but here receiving its first London performance. As elsewhere in Matthews's music, the structure is sound, the intellect keen, the orchestral writing clear-headed, and in its latter stages the score begins to draw a cumulative strength of purpose from its material. The Mark-Anthony Turnage piece that followed, however, is something else. The music of *Kai*, composed in a mixture of sorrow and anger after the death of a young cellist, feels as though it simply had to be written and the urgency of its inspiration made it easily the most powerful of the pieces performed here. As at its premiere in 1990, Ulrich Heinen was the eloquent cello soloist.

There had been a first UK performance at the early evening concert as well. This was Sofia Gubaidulina's *And: the feasting at its height...*, a cello concerto in all but name, lasting just under half an hour. David Geringas and the BBC National Orchestra of Wales conducted by Tadaaki Otaka were the able performers, but there was little they could do to rescue this work from its self-imposed sentence of sterility.

The opening ideas, tapping rhythms in the percussion and glissandos in the strings, though none too promising, are batted back and forth between cellist and orchestra for far too long. Only after a big climax that sounded like a parody of the flying scene from Strauss's *Don Quixote* does the material gather itself into a sustained statement of some import, and by then it was too late. This was nothing like as impressive as Gubaidulina's companion Viola Concerto, which had a well-remembered success at the BBC Proms last year. Nobody staged a protest about that, though.

Richard Fairman

INTERNATIONAL Arts Guide

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Capriccio: by R. Strauss. Revival conducted by Andrew Davis and directed by John Cox. The Countess is sung by Felicity Lott. With the London Philharmonic Orchestra; Aug 14, 17
● Le Comte Ory: by Rossini. Revival conducted by Yves Abel and directed by Jérôme Savary, with the London Philharmonic Orchestra; Aug 12, 15, 18
● Simon Boccanegra: by Verdi. New production conducted by Mark Elder in a staging by Peter Hall. With the London Philharmonic Orchestra. The title role is sung by Elena Prokina; Aug 13, 16

LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● BBC Symphony Orchestra: conducted by Andrew Davis in works by Ravel and Mozart, and Payne's elaboration of the sketches for Elgar's Third Symphony; Aug 13
● Choral Day: afternoon events include the New College Choir conducted by Edward Higginbottom at 5.30, and the Huddersfield Choral Society conducted by Martyn Brabbins at 6.15; Aug 15
● Carmina Burana: by Orff. Terry Edwards conducts an assembled choir of 1,000 voices as the finale of the Choral Day; Aug 15
● City of Birmingham Symphony Orchestra and Chorus: conducted by Simon Rattle in works by Birtwistle and Beethoven. With soloists including soprano Rosa Mannion, tenor Philip Langridge and bass Willard White; Aug 14
● Orchestra of the Age of Enlightenment: conducted by Heinrich Schiff in works by Haydn, Gluck and Beethoven. With baritone Thomas Allen; Aug 12

Royal Festival Hall
Tel: 44-171-960 4242
Kodo Drummers: return visit by the 14-strong Japanese troupe; Aug 12, 13, 14, 15, 16

EXHIBITIONS
Barbican Art Gallery
Tel: 44-171-638 8891
The Warhol Look/Glamour Style Fashion: includes screen prints, films, reconstructed window displays, photographs, illustrations and clothing; to Aug 16

Royal Academy of Arts
Tel: 44-171-300 8000
Summer Exhibition: held every year since the Academy's foundation in 1768, the world's largest open exhibition displays work by established painters and sculptors alongside that of younger and less well known artists; to Aug 16

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
● Canadian Brass: programme includes works by Bach, Mozart and Bizet; Aug 13
● Mostly Mozart Festival Orchestra: conducted by Ivor Bolton in works by Mozart. With violin soloist Christian Tetzlaff and piano soloist Louis Lortie; Aug 12
● Mostly Mozart Festival Orchestra: conducted by Carlos Kalmar in works by Mozart, Rossini and Schubert. With piano soloist Alexei Lubimov and clarinet soloist Richard Stoltzman; Aug 14, 15

PARIS

EXHIBITIONS
Centre Georges Pompidou
Tel: 33-1-4478 1275
www.cnac-gp.fr
Max Ernst: Sculptures, maisons et paysages. Around 100 sculptures and paintings by the German-born artist (1891-1976), who lived and worked in Paris and the US. Associated with Dada and the Surrealists, Ernst broke away from them to develop his own style; to Aug 17, then touring

SALZBURG

OPERA
Salzburg Festival
Tel: 43-662-844501
● Aufstieg und Fall der Stadt Mahagonny: by Weill. Conducted by Dennis Russell Davies in a staging by Peter Zadek, with sets by Richard Peduzzi. Cast includes Dame Gwynneth Jones and Wilbur Pauley. With the Vienna Radio Symphony Orchestra; Grosses Festspielhaus; Aug 12, 17
● Don Carlo: by Verdi. New staging by Herbert Wernicke, with the Vienna Philharmonic and Opera conducted by Lorin Maazel. Cast includes Samuel Ramey; Grosses Festspielhaus; Aug 13, 16, 18
● Le Nozze de Figaro: by Mozart. Conducted by Sir Charles Mackerras in a revival of Luc Bondy's staging, directed by Joël Lauwers. With the Vienna Philharmonic and Opera. Cast includes Dwayne Croft and Barbara Frittoli; Kleines Festspielhaus; Aug 15, 17

THEATRE
Salzburg Festival
Tel: 43-662-844501
● Soon: by Hal Hartley, with music by Hal Hartley and Jim Coleman, and sets and costumes by Steve Rosenzweig. Co-production with deSingel, Antwerp; Perner Insel; Aug 12, 13, 14
● Danton's Death: by Büchner. New, co-production with the Berliner Ensemble, directed and designed by Robert Wilson, with costumes by Frida Parmeggiani; Landestheater; Aug 12, 15, 17, 18
● Troilus and Cressida: by Shakespeare. New, co-production with Theater Basel, directed by Stefan Bachmann; Lehrbauhof; Aug 13, 14, 15, 16, 18

SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
www.santafeopera.org
● A Dream Play: American premiere of Ingvar Lidholm's opera based on Strindberg's play. The director is Colin Graham; Aug 14
● Beatrice and Benedict: by Berlioz. New production directed by Tim Albery and designed by Jennifer Tipton. Susan Graham will sing the role of Beatrice, with Elizabeth Futral as Hero. The conductor is Edo de Waart; Aug 13
● The Magic Flute: by Mozart. New production by Jonathan Miller, with sets by Roni Toren and costumes by Judy Levin. Cast includes Sheri Greenawald; Aug 15, 18

SCHLESWIG-HOLSTEIN

CONCERTS
Schleswig-Holstein Music Festival
Tel: 49-431-567 080
● Anne-Sophie Mutter: recital of Beethoven violin sonatas; Kiel, Schloss (Aug 14), Flensburg, Deutsches Haus (Aug 15) and Lübeck, Musik- und Kongresshalle (Aug 16)
● Philharmonie der Nationen: conducted by Justus Frantz in works by Brahms; Sylt, Westerland, Halle 401 auf dem Flugplatz (Aug 12) and Lüneburg, Marktplatz, Open Air (Aug 14)

SEATTLE

OPERA
Seattle Opera
Tel: 1-206-389 7676
www.seattleopera.org
Tristan und Isolde: by Wagner. New production by Francesca Zambello, conducted by Armin Jordan. The title roles are sung by Jane Eaglen and Ben Heppner; Aug 13, 16

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
● Andreas Rothkopf: recital by the organist of works by Bach; Aug 14
● Yomiuri Nippon Symphony Orchestra: conducted by Yuzo Toyama in works by Schubert and Beethoven; Aug 17

EXHIBITION
Metropolitan Art Museum
Tel: 813-3823 6921
The Carmen Thyssen-Bornemisza Collection: touring show of 94 paintings. Highlights include 19th century Spanish works and works by American painters. Also on display are recently acquired works by Delaunay and Braque; to Oct 4

VERONA

DANCE
Teatro Romano
Tel: 39-045-800 5151
www.arena.it
Romeo and Juliet: by Prokofiev. Robert North's choreography, created in 1990, is presented here for the first time in a production designed by Andrew Storer. Romeo and Juliet are danced by Benito Marcelino and Mia Johansson; Aug 16, 18

OPERA
Arena di Verona
Tel: 39-045-800 5151
www.arena.it
● Tosca: by Puccini. New production by Giuliano Montaldo, with sets by Luciano Ricceri. Cast includes Ruggero Raimondi and the conductor is Zubin Mehta; Aug 14
● Un Ballo in Maschera: by Verdi. New production by Giuliano Montaldo with sets by Luciano Ricceri. Conducted by Daniel Oren; Aug 15

WASHINGTON

EXHIBITION
National Gallery of Art
Tel: 1-202-737 4215
www.nga.gov
Mark Rothko: major retrospective of the American abstract artist, including loans from Europe and Japan; to Aug 16, then touring

MARTIN WOLF

A bearable lightness

The rise of IT and the shift to services will determine who succeeds, how and where we work and how we are governed

The economic output of the US, measured in tons, is roughly the same as it was a century ago. But its real value is at least 20 times greater. As Americans have become richer, they have not consumed more commodities, but added more value to the commodities they consume.

As Alan Greenspan, chairman of the US Federal Reserve, pointed out in 1996, this growing lightness of gross domestic product is explained by the addition of a host of intangible attributes to physical commodities. The most important of all is knowledge. A modern Nintendo games machine contains more computing power than the main processor of the Apollo 13.

I owe this delightful titbit of information to Frances Cairncross of The Economist. Hers was one of two fascinating books on the broad theme – the other being by Diane Coyle of The Independent – that I took with me on holiday.* These two commentators do much to clarify the talk about the weightless economy and the death of geography.

The starting point must be the underlying economic changes. Here two things need to be distinguished: the first is the increasing importance of services; the second is a revolution in information technology (IT).

Between 1960 and 1994, the share of services in US GDP rose from 58 per cent to 72 per cent and the share in employment from 56 to 73 per cent. One reason for the rising importance of services is the growing desire for such things as entertainment, travel, medical care, financial security and care of both young and old. Another is the relatively fast growth of productivity in manufacturing itself. Demand for manufactures has failed to grow fast enough to offset the resulting decline in their relative prices.

An advanced economy in which intrinsically weightless services account for more than 90 per cent of GDP and employment could be with us within as little as two decades. Yet something potentially still more significant is happening: the exponential rise in the ability to manipulate and disseminate information. As the US Department of Commerce pointed out earlier this year, IT (that is, computing and communications) has generated more than a quarter of US real economic growth over recent years (see chart).**

There is a well-known puzzle, however. As Robert Solow, the Nobel laureate economist of the Massachusetts Institute of Technology, has noted drily, "You can see computers everywhere but in the productivity statistics."

What is going on? Five explanations may be advanced:

- Investment in IT is not yet large enough to make much of a difference.
- A great deal of the spending has been wasted, because nobody knows what to do with all that processing power.
- The importance of IT has been exaggerated.
- The technology is still too new to have brought about the expected transformation.
- We may be unable to measure the improvements in productivity that are occurring.

Of these, the last two seem to have most force. Measurement of improvements in quality are always difficult, but this is particularly so for services. Again, past technological revolutions took a couple of generations to have their full effects. A similar lag could occur now.

At this stage, it is unclear how big the impact will be. But what might it be? Here are at least a few pointers.

First, the tradability of output will be changed, unpredictably. A meal at a restaurant, a visit to a museum, a haircut, or the services of a nanny must be consumed where they are produced. But IT will make many services more tradeable than ever before. As Ms Cairncross points out, even electronic surveillance might be conducted on the other side of the globe.

Second, the increased tradability of parts of services and the growing ability to transfer technology and monitor output across frontiers could transform labour markets through what Ms Coyle calls "virtual immigration" by electronic means. Wages of people with the same skills will then start to converge across frontiers, while wages of those with different skills will diverge inside them.

Third, there will be further increases in inequality between countries able and willing to exploit the new opportunities and those that are not. The former will liberalise provision of communications and computing infrastructure. But they will also already have an adequate supply of educated people.

Fourth, the historical border between manufacturing and services will progressively erode. Once upon a time, manufacturers made things, produced at a distance and used mass-production. Today, most people engaged in statistically defined manufacturing do not make things; many services can be provided from a distance; and they can also be increasingly mass-produced.

Fifth, the marginal costs of some activities will fall to close to zero. Dissemination of an additional copy of a recording of a piece of music, of an article or of a piece of software will be close to costless. This then is a "winner-take-all" world. The performances of the best singers will be available to everyone. So will the best pieces of software and the thoughts of the best pundits. The value of the second best will be downgraded.

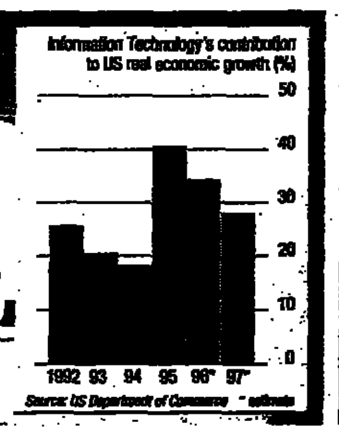
Sixth, large and stable corporate labour forces will become a thing of the past. This is partly because of the decline of employment in manufacturing. But it will also be because of the ability to monitor home workers, the flexibility demanded by service operations and the ease of shifting work around.

Seventh, the more weightless the growth, the less energy-intensive it will be. The transport of bits consumes virtually no energy. That of people and goods is far more expensive.

Eighth, among the most important determinant of future patterns of living and working is how much people desire face-to-face contact. In a world where work may be performed anywhere, people may work apart, but have fun together. Alternatively, close proximity at work may continue to be an invaluable source of creativity.

Finally, there will be complex changes in relations between citizens and governments. The latter will find it easier to monitor the physical activity of people than their communication. Governments control territory, on which the movement of large objects, such as people, can be monitored. But transactions will become placeless and traceless, with possibly dramatic effects on taxation (and liberty).

In the end, the reality may prove far less exciting than enthusiasts suggest. Personally, I rather doubt this. A world in which the manipulation and communication of information is cheap and difficult to monitor is likely to be different from – and far better than – any that humans have enjoyed before.



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LETTERS TO THE EDITOR

Proposal to provide for successor to duty free regime is way forward

From Mr Manfred Körner.

Sir, The French government is giving serious consideration to the immediate problems associated with the proposed abolition of intra-EU duty free from June 30, 1999 ("France considers duty free proposals", August 7). The French prime minister, Lionel Jospin, has pledged to avoid an abrupt application of the "abolition directive". Along with France, ever more member states recognise that "blunt" abolition is against their political, economic, and social interests.

The exception, perhaps, is the Scandinavian countries. They might have to change their position, however. Sweden, Denmark and Finland are seeking a derogation of their import restrictions for goods they subject to high domestic taxes, such as tobacco and alcoholic beverages. To achieve this they need the support of those countries fighting for an acceptable successor regime on duty free.

Mutual interest is the best bargaining ground. The Capet model (put forward by the Socialist deputy for the northern French region of Nord-Pas-de-Calais, which stands to be worst affected) is only one option. An expert committee of the European Committee of the Regions (CoR) has just called for an extension of the existing regime for five years. During that time all political, commercial and social interests affected should work out a successor regime.

While not prescribing a specific model, the CoR proposition has all the political ingredients of winning majority support because all stakeholders concerned will be members of the consensus building process right from the beginning. Surely in a modern, democratic Europe this should be the way forward on an issue which cries out for an acceptable solution.

Manfred Körner,
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No evidence supplier workers mistreated

From Mr Tony Nash.

Sir, In your story "Wal-Mart attacked for supplier labour standards" (July 31) you state that factories with abhorrent labour conditions in China were investigated by the National Labour Committee, but you do not explicitly state that the factories are suppliers to Wal-Mart. These factories could be vendors to retailers in Japan, Germany, Britain, US, or any other country (maybe even China).

The NLC has demanded that Wal-Mart release the names of its vendors, while it has no proof of misconduct or mistreatment of workers in the factories of Wal-Mart vendors. In the retail industry, the ability to find vendors and create a cost-competitive item of acceptable quality is a competitive advantage, as is product design, development and costing for all other industry-leading companies.

Coca-Cola will not release the ingredients to its soft drink formula, so why should Wal-Mart release the names of its vendors?

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Two currencies cannot maximise benefits

From Mr Walter Greg.

Sir, Jon Livesey, writing from California (Letters, August 10), would like to see not just one but two European single currencies – "the euro for the core, and the pound for the periphery" – orbiting each other, like binary stars, perhaps "indefinitely".

His premise, that the UK and the non-UK EU economies' business cycles tend "for good reasons" to be out of step with one another and that this is "not necessarily a bad thing", is nevertheless open to question. The business ("economic") cycle is neither a welcome nor, being man-made and not endemic, necessarily a permanent feature of any economy. Nor, if there must be such a thing, are two "counter-cyclical" cycles better than one, except perhaps for third countries like the US, which currently, of course, is celebrating, and striving hard to sustain indefinitely, one of the longest expansions in its history.

No, two (or more) currencies circulating side by side within one purportedly single market can only be a makeshift, incapable of maximising the potential benefits to participants and non-participants alike.

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Peso of the north

Canada's dollar has declined to an all-time low. Its poor performance reflects structural weaknesses and bad economic management, says **Edward Alden**

For Canadians who thought their dollar had finally shaken its unwanted nickname, the "northern peso," this summer has been a sobering experience.

The currency, which closed at an all-time low of 65.39 US cents last week, has lost 5 per cent of its value in a slow but relentless decline over the past three months. So stubborn is the trend that aggressive buying of Canadian dollars by the central bank in the past few days has produced a rebound of less than half a cent.

A declining currency is nothing new for Canada. Since 1976, the last year a Canadian dollar was worth more than a US greenback, the currency has steadily lost ground.

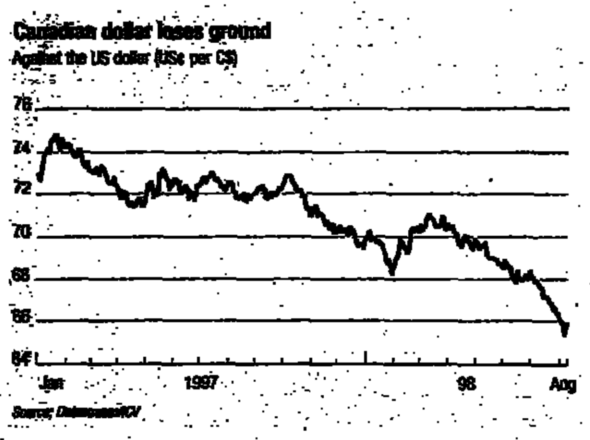
When the Mexican peso collapsed in late 1994, the Canadian dollar fell to 70 US cents. Investors were wary of Canada's huge budget deficits and its political uncertainties. The Bank of Canada was forced to raise interest rates by 250 basis points in two months to stop the slide.

Since then, much has changed. Ottawa has turned a C$42bn budget deficit into a small surplus and total debt is shrinking as a percentage of gross domestic product. The political situation has also cleared. The possibility of Quebec separating from the rest of Canada, often blamed for the currency's weakness, now appears remote.

But one thing has stayed the same: gloom about the currency. Even though the economy is fairly strong – until recently economists were predicting growth of 3.2 per cent this year – the currency has fallen 10 per cent over the past year.

What lies behind this weakness, and why are the markets punishing the Canadian currency so severely? The answer is they believe Canada has not yet properly addressed many of its structural weaknesses and that it has fumbled its management of the economy.

The most obvious weakness is the country's persistent dependence on commodities, which account for nearly 40 per cent of merchandise export earnings. Other resource-dependent countries, such as Australia and New Zealand, have also seen their currencies hurt by the fall in commodity prices resulting from weaker Asian demand.



Tempting as it is to blame the currency's woes on weak commodity prices, this alone cannot explain its fall from grace. Australia and New Zealand rely much more on resource exports, especially to Asia which absorbs only 9 per cent of Canadian exports. Yet their currencies have not suffered any more than Canada's.

Besides, Canada has steadily diversified from commodity exports over the past three decades. This should have made it less vulnerable to price shocks.

A second, and more serious, weakness is lagging productivity. The 1988 free trade agreement with the US was supposed to help Canadian businesses rationalise on a continental scale to meet competition from south of the border. But Canadian companies have not kept pace. In spite of an improvement in labour productivity last year, the gap between Canadian and US productivity levels has widened. Canadian manufacturers are, on average, about 25 per cent less efficient than their US counterparts, according to CIBC Wood Gundy, a Canadian brokerage.

The markets believe Canada has not addressed many of its structural weaknesses and that it has fumbled its management of the economy

Poor productivity partly reflects the rigidities of Canada's labour market, which is more inflexible than its southern neighbour. Corporate and personal tax rates are higher than in the US and may have discouraged investment.

Canada's biggest weakness, according to critics, is neither its reliance on commodities nor its lagging productivity. Its real problems are caused by bad economic management.

Until the current Liberal government finally turned things around, Ottawa had spent 20 years running unsustainable budget deficits. The legacy is a C$600bn national debt that swallows 28 cents of every tax dollar.

That situation has been compounded by inconsistent monetary policy. In the early 1990s, Canada suffered a punishing recession – its deepest since the 1930s – after John Crow, the then Bank of Canada governor, pushed the overnight lending rate to 14 per cent when inflation was running at 4-5 per cent.

His successor, Gordon Thiessen, has been criticised both for inconsistency and for what many say is a lack of market savvy. He raised interest rates sharply in 1995 only to drop them quickly again when the economy started to slow.

Last year, Mr Thiessen kept hinting strongly he would raise rates and then failed to do so until investors began dumping Canadian dollars. That forced his hand: rates had to be raised sharply to keep the dollar from falling still further.

Mr Thiessen appears to have made things worse this summer by saying he did not think an interest rate increase would be necessary. Until the change of policy at the end of last week, he also ruled out aggressive intervention to prop up the falling currency.

This inconsistency has left Canada's business cycle far less advanced and its growth less predictable than in the US. The economy grew strongly in 1994 but fell back in 1995 and 1996. Last year's 3.8 per cent growth was only the second truly robust year this decade.

With the Asian crisis hitting more deeply than expected and growth slowing in the US, which accounts for more than 80 per cent of Canada's merchandise exports, the Canadian economy is starting to wane. Economic growth has been flat for the past two months and the unemployment rate is stuck at 8.4 per cent. Economists are downgrading their forecasts daily.

The Bank of Canada, which intervened for the fourth straight day yesterday, finally appears determined to halt the currency's slide. But the damage may already have been done.

Bond yields and mortgage rates have risen and most currency traders believe the central bank will have to raise its overnight rates to keep the dollar at more than 65 cents. The Canadian stock market has fallen harder and further than the US market as confidence in the currency fades. Moreover, recent surveys show consumer confidence falling along with the dollar. That threatens to undermine the strong domestic spending Canada needs to keep its economy growing.

All of this has been unsettling for Canadians who thought the worst was well behind them. Says Mark Mullins, chief economist at Midland Walwyn: "There's a sense of gloom setting in."

COMMENT & ANALYSIS

FINANCIAL TIMES

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Wednesday August 12 1998

The birth of a giant

These are difficult times for oil companies. Politicians want people to curb consumption to preserve the environment. Financial turmoil in south-east Asia has knocked the bottom out of their fastest growing markets, while in Europe and the US an ageing population will become less keen on driving.

While demand for oil remains weak, the lingering effects of the steep price increases in the 1970s and impressive advances in technology have kept supply more buoyant than most people expected. More oil is progressively squeezed out of more hostile environments at ever lower costs.

Result: a depressed oil price now back in real terms to its level at the end of the 1960s and strong pressure on profits. Most of the big oil companies have responded by drawing in their horns, cutting administration costs and hoping for better times.

The merger plans of BP and Amoco announced yesterday represent an altogether riskier strategy. The combined company, with a market capitalisation of $110bn and reserves of some 15bn barrels of oil equivalent will jump straight into the top league along with Exxon and Royal Dutch/Shell. These groups will be about twice as big as their nearest rivals and therefore in a position to take higher risks in the battles for the next big tranche of reserves, whether in Iran, Russia or Khazakstan. In the past size has mattered; and BP, the dominant partner in the new group, doubtless hope that it will continue to mean higher profits.

In the short term, it should be able to achieve this by another round of cost-cutting, as the two managements are combined into one. The risk is that this difficult and painful task will cause BP Amoco to take its eye off the main chance. Still, BP has experience of swallowing large companies after completing the purchase of Standard Oil of Ohio and Britoil in 1987.

And it seems unlikely that the companies will be diverted by wide-ranging anti-trust investigations. Except perhaps in a few local markets, there is no need for the authorities to intervene. The new company will create more competition, not less, in the super-league, with 15 very large competitors at its heels.

For BP the move represents a decisive rediscovery of its roots as an independent international oil company. The British government stake, built up in 1914, was finally relinquished little more than a decade ago, as the group's meanderings into coal, copper, and nutrition were coming to an end. Since then it has successfully sharpened its focus on oil exploration.

Yet it has failed to match the spectacular finds it made in Alaska in 1969 and the North Sea a year later. Now it will pack a much stronger financial punch. It must prove that it knows how to use it.

Slot market

Karel Van Miert, the European Union's competition commissioner, this week tried to block the sale of British Airways and American Airlines landing slots. This restrictive approach typifies how the international airline market has come to be so distorted. Regulators should ensure safety and free competition. But markets work as well in the air as they do on the ground: plum landing spots should be left to supply and demand.

As a condition for EU approval of the proposed BA-American alliance, Mr Van Miert has demanded the airlines give up 267 weekly slots at London's Heathrow and Gatwick airports. The Office of Fair Trading, the UK competition watchdog, has broadly endorsed this requirement. But the OFT argues that the airlines should be permitted to sell these valuable rights, just as companies sell controversial assets in return for merger approval. Mr Van Miert refuses to countenance such a sale. But his tough line is shaky on both legal and economic grounds.

The Treaty of Rome is unclear on whether national governments or the Commission has the final say on airline alliances. The OFT clearly thinks that this is a matter for the UK authorities. Peter Mandelson, the new UK minister for trade and industry, will make his ruling next month.

The economic case is more transparent. Allocating precious slots through deals and negotiations is both unwise and unsustainable. It invites just the sort of non-transparent lobbying that frustrates competition. To stamp this out, the EU will eventually be forced to open airline slots to trade.

Would this damage competition as the commissioner claims? It is true that companies which already control slots would make windfall gains. But this is hardly an insurmountable problem. A one-off windfall tax could be imposed reflecting the value of these property rights, starting with BA-American. John Prescott, the UK minister with responsibility for transport, yesterday pointed out that landing slots belong to communities rather than companies. A windfall tax would allow the community as a whole to benefit.

Mr Van Miert says that selling airline slots would raise barriers to new entry. But this is by no means inevitable. Neil Kinnock would certainly disagree. The transport commissioner has long advocated the sale of landing rights, precisely in order to promote competition. The existing system already favours incumbents, particularly national carriers. Under a traded system, airlines could gain a foothold in new markets. They would need only capital, rather than lobbying clout and friends in government.

Pegged down

Financial markets seem determined to scent blood around the Hong Kong dollar. Local interest rates have again come under painful upward pressure as a result. The pressure will persist unless the authorities do more to get the message across that abandoning the peg would bring even more pain than Hong Kong is presently facing.

Only part of the problem relates to fear about a possible Chinese devaluation. This fear is deeply embedded in the market psyche but it defies logic. China's last devaluation, in 1994, passed off without upsetting Hong Kong's dollar. If a depreciation now stimulated the mainland's economy and exports, it would surely boost Hong Kong's too.

A more serious worry is the pernicious pressure building up inside Hong Kong as its own economy weakens. There is now a widespread view that the authorities will use the first period of calm in the markets – maybe sometime next year – to abandon the peg. Market horizons being what they are, traders see no point in waiting that long.

No one can deny the cost of sticking with the peg. It means a wrenching adjustment in property prices, wages and employment. That is much harder now that Hong Kong has a sizeable and vocal middle class many of whose members are now underwater on their mortgages.

Yet the pain must be kept in perspective. By comparison with some other Asian economies, Hong Kong's economic contraction is modest. The suffering of its banks is unpleasant but not terminal. Above all, there is no way that the territory can avoid economic adjustment by coming off the peg.

That would cause a collapse in its currency, sharply higher interest rates, yet more worries about the property market and a massive loss of confidence which would jeopardise its role as a financial centre.

The government has not helped by its signals of desire to mitigate the adjustment process. It needs to make categorically clear that it will not stand in the way of an adjustment that is both necessary and inevitable and that it sees the peg as an essential part of that process.

Conveying this message requires more technical and political skill than Tung Chee-hwa, chief executive, has hitherto shown. The test is critical for reasons which are more than merely economic.

From Japan to South Korea, Thailand and even Indonesia, governments have been thrown out for economic failure. In undemocratic Hong Kong, voters would understandably resent their inability to do the same to a government that fell short of the requisite competence.

Land of the giants

BP's takeover of Amoco will catapult it into the super league. That will have profound implications for its competitors, says Robert Corzine

Confidence was one commodity seemingly in abundance at British Petroleum yesterday as the company announced the world's biggest industrial merger.

Sir John Browne, BP's chief executive, threw down a gauntlet to Royal Dutch/Shell and Exxon, the other two "supergiant" international oil companies, promising to introduce a new dimension to competition in the industry. "We plan to shape our own destiny," he said, creating "real competition for those already in that league".

Executives used a string of superlatives to describe the takeover of Amoco, the US's fourth-biggest oil company. It will create Britain's biggest company and one of the three largest oil groups in the world.

The new company will also be the biggest producer of oil and natural gas in the US, the world's largest energy market. And its combined daily output of about 3m barrels will be greater than that of the UK and of most members of the Organisation of Petroleum Exporting Countries.

It will take analysts days to pore over the details of the deal to discover all its nuances and possible pitfalls. But even as executives finished their briefings yesterday in the sweltering heat of the Honourable Artillery Company headquarters in London, it was already clear that the BP Amoco link-up is likely to cause fundamental shifts in an industry of central importance to the world economy.

There are four big questions that arise from yesterday's announcement. The first relates to strategy. What lay behind deal?

The phrase "distinctive assets" was mentioned several times by Sir John. The worldwide search for outstanding projects has become an obsession of the leading companies in the sector.

Traditionally, even the biggest oil companies have had just a handful of assets that are seen as "company builders". These are the prolific and long-lasting fields that produce very high rates of return and fund an oil company's constant – and phenomenally expensive – search for yet more assets.

In recent years, competition to secure a new generation of such reserves has intensified. This is partly because such oilfields are becoming increasingly hard to find as oil companies scour in more and more remote regions of the world. Competition for those reserves that remain has also grown as state oil companies and recently privatised groups move outside their domestic markets.

Sir John is hoping the merger will help that cause. BP Amoco, he said, will have the financial wherewithal "to take decisive stakes in the best projects". Although BP on its own was "top of the second division", it found itself constrained from fully exploiting the best opportunities that came its way.

The merger also catapults the combined group to new competitive levels in downstream refining and marketing, as well as in chemicals. It will be the biggest marketer of gasoline in the US east of the Rocky Mountains (excluding Texas). The combined group will rank as the world's third largest chemical company measured by sales.

"We want to be number one or two in everything we do," said Sir John, although he said that "scale is an outcome of what we've done, not the purpose".

He insisted that low oil and commodity prices did not influence the decision to merge, although it was interesting to note that yesterday's announcement came as oil prices dipped to fresh 10-year lows. Analysts say it is generally those oil companies with the lowest-cost assets that do best in cyclical downturns. They can also move faster in responding to opportunities when markets begin to recover.

Big companies can also spread their risks more widely. The new group will have the financial clout and reach to take on the riskiest long-term development projects in remote areas of the world, but it will have most of its assets and production in western-oriented industrialised countries.

The second question arising from the deal is: what are the chances of a smooth integration of BP and Amoco?

The answer is, probably better than many previous Anglo-American ventures. BP has had substantial experience in combining its operations with a US group. Two years ago, it merged its European refining and marketing operations with those of Mobil. That too was an effective takeover, albeit it on a much smaller scale.

The Amoco merger is of a different order. But initial job losses – about 6,000 out of a combined workforce of 100,000 – means the vast majority of BP and Amoco employees will be unaffected, at least in terms of losing their job.

Cultural clashes should be minimal, as BP already has a substantial US business and a smattering of senior US executives. Sir John, who will be chief executive officer of the combined group, also has extensive experience of the US. He received his MBA from Stanford Business School and enjoys working in America.

Mobil was often seen as the most likely long-term partner for BP. The companies have talked about a possible link-up for some time, but some analysts said such a deal would have been complicated by questions of who would lead the combined group. Mobil already has a strong-willed executive leader in Lou Noto, and Sir John is known to have been concerned about the dangers of sharing the top leadership slot. Larry Fuller of Amoco, on the other hand, is due to retire soon, smoothing out any possible leadership battle.

Even so, many companies gloss over the difficulties and distraction of integrating big mergers. Mr Fuller, who will be co-chairman of the combined group along with Peter Sutherland of BP, acknowledged yesterday the pitfalls that might emerge over the next two years or so. "We've thought hard about the need for speed" in integrating the two companies, he said.

'We want to be number one or two in everything we do'

Sir John said BP had also put into place measures to ensure that the drive for greater efficiencies already under way within the two separate corporate structures would not suffer.

He played down the possibility that the combined group might become so absorbed in the integration exercise itself that it would fail to find or exploit the big opportunities that are the underlying reason for the deal. "Such opportunities are few and far between," he said. "We won't let such opportunities go."

If Sir John's optimism is merited, the deal will have profound implications for the rest of the industry. But what exactly will the effects be?

The merger is likely to put pressure on other integrated oil companies to improve their own competitiveness. For Exxon and Royal Dutch/Shell, long accustomed to having the "super league" to themselves, the BP/Amoco deal probably comes as a rude shock.

No longer will Shell and Exxon be able to take for granted that the biggest projects will automatically come their way. In the past, other companies did not have either the management expertise nor money to consider them. That will now change.

But it is not clear that Shell and Exxon will feel the need to emulate BP by growing even bigger. Just last week, Mark Moody Stuart, the new Shell chairman, speculated that one reason there was such little consolidation in the oil industry was "because we're all so big anyway".

Mr Moody Stuart also wondered whether a wave of mergers and acquisitions would have any point. He was not convinced it would result in long-lasting efficiency gains. "When everyone is done with the consolidation you fundamentally have a zero-sum gain. All you've done is extract something. You haven't created anything."

Yesterday's deal may change his thinking. But the supergiants are more likely to pursue joint ventures rather than direct takeovers. Mr Moody Stuart said it was easier to put together companies in "bite-sized chunks" through joint ventures than to tackle consolidation on a global scale.

But if the BP Amoco deal does not force the supergiants to go on an acquisition spree, it may well trigger a wave of copycat mergers among the smaller companies. The deal will certainly put intense pressure on some of the medium-sized US integrated oil companies, such as Texaco and Arco, which are struggling to build meaningful foreign businesses to offset declines in US domestic production.

One of the big barriers to consolidation in the US has been the fact that most of the companies, including Amoco, have largely failed in their attempts to lift their reserves in recent years. Putting together two companies with a declining reserve base only makes that task harder.

Continental European companies, such as Elf-Aquitaine and Total of France and Eni of Italy, also face tough choices.

Even though Elf and Total have been privatised, analysts say it is doubtful that the French government would allow them to enter into deals that threatened to subsume their national identity.

Eni, under Franco Bernabé, its chairman, has shown a greater willingness to move beyond its Italian roots and assume a more international status. But it is still 40 per cent owned by the Italian state.

Whatever actions smaller companies may contemplate, and eventually take, none will be able to attain the intangible benefit that can come from being first. If nothing else, yesterday's deal shows that Sir John is willing to act on one of his most treasured business principles: that the biggest gains go to those who are boldest.

OBSERVER

Curtains for coalition?

So is India's film star turned political force J. Jayalalitha serious this time? She's threatening to pull India's fragile Bharatiya Janata Party-led coalition government down by withdrawing her small party's support. But she has made such noises before, so some suspect that she's just crying wolf.

The trigger for the ex-thespian's latest flounce was a BJP-brokered deal in a complex wrangle over water supplies involving her home state of Tamil Nadu. But in the background there seems to have been a change of heart within the Congress party, the dominant force in Indian politics for most of the post-independence period.

Since the elections earlier this year, party officials have discouraged speculation about taking power. Congress was in a mess, ran the official line, and would concentrate on sorting itself out.

The party is still in a mess but some senior figures are apparently alarmed by a series of attacks on non-Hindus – largely uncondemned by the government – and rising tension with Pakistan. They have begun to signal that if "internal contradictions" were to bring the government down, Congress might be willing to lead a non-BJP coalition. A senior Congress official has even set out a foreign policy agenda.

So now, as Jayalalitha sings her familiar song, Indians are paying more attention than they did the last time. And wondering whether there will be another encore.

Rocky's return

Wherever he is, John D. Rockefeller must be grinning from ear to ear. The mother of all mergers between British Petroleum and Amoco reunites two parts of the oil empire he created – and saw smashed to smithereens.

It's taken more than 80 years for market forces to reverse the work of the US Supreme Court's trustbusters but Rockefeller would be pleased as punch to see Standard Oil of Ohio (nowadays a BP subsidiary) back in the same camp as Standard Oil of Indiana – or Amoco, as it now prefers to call itself.

Show time

Garth Drabinsky, the flamboyant Canadian producer of Broadway musicals such as *Showboat*, *Ragtime* and *Phantom of the Opera*, rocked Toronto in April by stepping down as chairman of Livent, his theatre company.

He handed control to a group headed by former Walt Disney chairman Michael Ovitz, insisting that he wanted to devote himself to the creative side of the business. It seemed an odd ambition for the driven entrepreneur, who pioneered the multi-screen cinema across North America as chairman of Cineplex Odeon, then took Broadway by storm.

It turns out that creative frustration may not have been uppermost on Drabinsky's mind. Livent's new management has now suspended him and co-founder Myron Gottlieb, stating that they had found "serious accounting irregularities" involving millions of dollars.

Not that things are going much better on the creative front. Drabinsky's latest spectacle *Fosse*, a tribute to the late dance genius Bob Fosse, opened on Sunday to reviews typified by the Toronto Star's verdict: "A tad repetitious, overwhelming and even a bit numbing."

Game plan

The Rolling Stones, those creaking veteran rockers, are at Poland's national stadium in Chorzow on Friday – which may be all the action the country's football venues will see for a while.

The Polish Football Federation PZPN meets today to discuss a crisis that led to all but one of the nation's premier league football matches being cancelled at the weekend – most of the 16 clubs went on strike.

The clubs want Marian Dziurowicz, the association's boss, to resign. Sports minister Jacek Debski has alleged financial misdemeanours at the association, which Dziurowicz denies. International football bodies Fifa and Uefa are backing Dziurowicz. They say governments should keep their noses out of sport, an odd defence for someone whose roots are firmly planted in Poland's communist past.

Debski suspended the PZPN board in May but backed down last week after Fifa and Uefa threatened to ban Polish clubs from international matches. After all, Debski is from Lodz, whose LKS Ptak team is due to play Manchester United in the European Cup today.

So far the fans are backing Debski and Dziurowicz's days seem to be numbered. But the affair has cast a shadow over the game and attendances are low: these days, it takes Mick Jagger to fill a football ground.

Magnanimous

It was generous of Portugal's opposition Social Democrats yesterday to promise not to make political capital out of the fraud scandal at Expo '98, the world fair in Lisbon.

Mind you, it was the Social Democrat government which appointed the chief accountant who has been detained by police investigating the shindig's accounts. So political capital might have been hard to find.

100 years ago

New York In 12 Hours

We have seen many singular prospectuses, but few more curious than that of Davidson's Air-Car Construction Syndicate. The capital is £20,000, and the idea is to provide Mr. Davidson with funds to construct a flying machine. Some experiments appear to have been made, and we get a most stimulating picture of an aerial-motor careering along in mid-air. We also have sectional plans of the machine, by which it is suggested we may soon be able to journey from London to the Riviera in eight hours, New York in twelve and round the world in eighty hours. But we have no adequate explanation of how these marvels are to be accomplished. "Subscribe and you will see," is Mr. Davidson's idea, but that is taxing too severely the faith of the investor. The only Director on the board so far is Mr. Davidson himself. The scheme seems more likely to result in the flying away of investors' money than in any other form of aerial locomotion. Another amusing prospectus is that of Mackley Brothers, which proposes to carry on the business of canary breeders. The issue is to be secured on the value of the canaries.

FINANCIAL TIMES
WEDNESDAY AUGUST 12 1998

THE LEX COLUMN

Brownean motion

In a single bound, British Petroleum's takeover of Amoco has created a new super-major to sit alongside industry giants Shell and Exxon. No longer will Sir John Browne be playing, albeit stylishly, in oil's second division. Instead, Sir John will be slugging it out for industry dominance on the back of the leading market positions created not only in key producing areas but also in retail markets and petrochemicals.

More than anything else, the acquisition demonstrates BP's unceasing drive to move the company forward in spite of 10-year lows in the oil price.

In terms of access to resource basins, BP Amoco will have the scale and deep pockets to compete aggressively for the best stakes in the most attractive projects. And its strength downstream, particularly in the US where Amoco is the market leader in premium petrol will force competitors on to the back foot. That will force mergers between those still stuck in the second rank, such as Elf, ENI, Mobil, Chevron and Texaco, as the need to catch up becomes obvious.

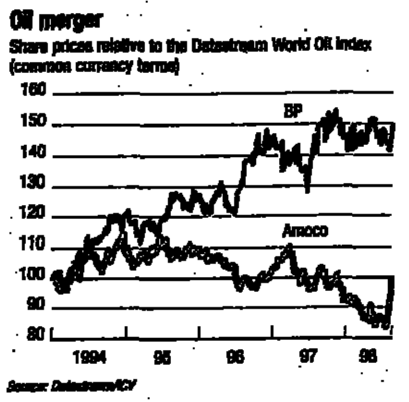
However, as with the DaimlerChrysler deal – which also boasted of being the largest industrial merger of its day – putting such a deal together on paper is the easy part. Making it work will be considerably harder. To this end, the BP Amoco combination has got off to a good start. A simple management structure headed by Sir John with a single headquarters in London is a marked improvement on DaimlerChrysler's bicephalous approach.

And again, the cost savings currently envisaged – the $2bn target by 2000 represents less than 3 per cent of the combined cost base – are extremely conservative. Linking executive remuneration to these targets would be more impressive if they were more demanding. Still, even such unambitious forecast savings are well worth the effort. Taxed and put on a multiple of 10 times, some $13bn of shareholder value will be created by the merger.

A modest 15 per cent premium to Amoco's shareholders accounts for over $5bn of the cake – but still leaves this looking like a good deal for BP. That the companies' combined market capitalisations have not yet moved to encompass all the value created reflects inclement global markets and a further fall in the oil price.

Oil merger

Share prices relative to the Datastream World Oil index (common currency terms)



Source: Datastream/ICV

Regulatory uncertainty will also continue to offer arbitrage opportunities. But the extent of BP's ambition will doubtless be rewarded soon enough.

De Beers

Is De Beers about to regain some of its lost sparkle? Falling Asian demand and a severe destocking caused first-half headline earnings to fall by 33 per cent. But the outlook for rough diamond sales in the second half is more favourable. Moreover, De Beers is extremely cheap: the share is trading at less than half its net asset value, with the entire diamond interests valued at a measly $1.2bn.

What, though, are the prospects for retail demand? Groggy US stock markets will make De Beers' executives nervous, and rightly so. With Asia in a slump, the US now accounts for over 40 per cent of sales. But consumer demand there is ever more tightly entwined with share prices. If the Dow's current weakness persists, the US consumer may not be there to pick up the baton from Asia. Nobody knows what the impact of a big stock market correction will be on end demand. But the risk is clearly that a cheap stock could yet go lower.

But all is not lost. The ongoing restructuring of the Anglo American/De Beers group will certainly unlock value. And in the shadow of the millennium, "diamonds are forever" will be a powerful proposition amid a deluge of ephemera. When these factors kick in, the sparkle will return with a vengeance.

Kingfisher

Kingfisher may not succeed in achieving an alliance with French DIY retailer Castorama, but it is certainly right to be trying. Retailing is notoriously parochial, but Europe's single currency will change this, as improved transparency drives prices lower. In this environment only the most efficient retailers will flourish. Scale is critical, but not easily achieved when cultural and family factors can still trump the eagle-eyed logic of investment bankers.

Hence the need to pursue solutions, short of a takeover, that bring together valuable brands and deliver benefits of scale and central controls without losing local flavour. This is a model, of course, that fits nicely with Kingfisher's way of doing business.

It is also an approach that seems well suited to the European market. The alternatives – organic growth or acquisition – can be slow and expensive. Perhaps Kingfisher should offer lessons to some of its slower moving UK rivals.

Dresdner/PaineWebber

Dresdner Bank seems to be the latest European bank determined to make a splash on Wall Street and likely to end up floundering out of its depth. News of its talks with PaineWebber sent Dresdner's shares down 6 per cent and PaineWebber's up by a corresponding amount yesterday.

The purchase of PaineWebber would make little sense. What Dresdner needs to gain critical mass is a top-notch investment bank. What it would get is a second-tier retail brokerage and a decent position in asset management. Just possibly, that could lead to a three-way alliance in fund management with Allianz, Dresdner's biggest shareholder. But merging PaineWebber and Dresdner's Kleinwort Benson investment banking arm would, given their very different products and cultures, be a real challenge.

Even scarier is a suggested price of $8bn-$10bn, or more than four times book value. There is nothing wrong with thinking big. However, for that kind of money, Dresdner could buy, say, a reviving Lehman Brothers, and a real shot at the top table.

PR COMPANY HIRED TO HELP REVERSE DOWNTURN IN RUSSIA'S MARKETS

Moscow brokers go west in quest of better image

By John Thornhill in Moscow

A group of Moscow-based stockbrokers is hiring a western public relations company to improve Russia's image among foreign investors and help reverse the savage falls in the country's financial markets over the past year.

The stockbroking firms, which have seen daily turnover on Russia's rudimentary stock market reduced to just $10m a day, are desperate to entice foreign investors back into Russia – and salvage their own businesses.

"There is a feeling that Russia generally gets a bad rap, and we are looking at ways of correcting that," said one of the members of the group.

The 15 firms, which are forming a non-profit industry association called the Financial Council of Russia, have selected Burson-Marsteller to head the public relations campaign.

Burson-Marsteller, which has confirmed its involvement in the project, is one of the biggest public relations companies in the world, with wide experience of working for foreign clients.

Discussions are still at an early stage but it is envisaged the council will act as a clearing house for information about Russia's financial markets and liaise with the government about how it can communicate its own economic message more effectively.

The council is also looking to recruit a prominent spokesperson who would devise a communications strategy with Burson-Marsteller for "selling" Russia to foreign investors.

Charlie Ryan, chief executive of United Financial Group, one of the council members, said the firms had met several times over the past two months to discuss ways of encouraging the development of Russia's financial markets.

"All of us have been so competitive with each other that we have not been very good at co-operating.

"But there is now a sense that we need an industry association which can represent our views and correct some of the misconceptions out there," he said.

The financial council, which includes leading local brokers such as Troika Dialog and MFK Renaissance, as well as international investment banks like Credit Suisse First Boston, also intends to lobby the government to improve the corporate governance environment within Russia.

Abuses of minority shareholder rights have deterred many foreign fund managers from venturing into the Russian market, which has plunged more than two-thirds this year.

The Russian government is encouraging the stockbrokers' initiative, although it has not given it any direct support.

Debt plans under threat, Page 2

Arrest casts a shadow over Lisbon's prestige world fair

By Peter Wise in Lisbon

Portuguese leaders were struggling yesterday to prevent the prestige project Expo '98 becoming a source of embarrassment rather than national pride, after police detained the chief accountant of the Lisbon world fair in an investigation into the alleged embezzlement of millions of dollars.

Government ministers and opposition leaders united in urging the country not to allow the alleged fraud to detract from the prestige of the national showpiece, which has won wide praise from visitors and international specialists.

Any scandal involving Expo '98, which marks the 500th anniversary of Vasco da Gama's discovery of the sea route around the south of Africa from Europe to India, is a blow to the national esteem of the Portuguese, who see the exhibition as symbol of modern Portugal.

The fraud probe involves the suspected embezzlement of at least Es800m ($4.4m) from a property development linked to the fair. It is generating embarrassment which threatens to cast a shadow over the $2bn exhibition, which has failed attract the expected number of visitors so far. The fair, on the theme of preserving the oceans, opened on May 22 and closes on September 30.

João Vilela Caldeira, the chief accountant of Parque Expo, a state company which is running the exhibition, was detained during a concert at the Expo site on Friday night.

Portuguese media are asking why the alleged fraud was not detected by a series of independent audits before being brought to light by an internal inquiry.

The investigation is looking into the alleged embezzlement of cheques used to pay for apartments in a block under construction as part of the Expo '98 development. The development involves a large property project on the Lisbon waterfront.

Mr Vilela Caldeira was vice-president of the apartment block in question. António Mega Ferreira, an Expo '98 director, said three other exhibition officials, including the head of computer systems, had been suspended from their posts to "ensure the transparency" of the investigation. The secretary-general of the event has also resigned pending the results of the inquiry.

António Costa, the government minister responsible for Expo '98, said the investigation would be "carried forward to its ultimate consequence" regardless of who was implicated. "You cannot play around with taxpayers' money," he said.

The Socialist government is hoping to be spared any direct party political embarrassment. The detained accountant was appointed under the previous centre-right government at a time when the Socialists were accusing that administration of failing to crack down on sleaze and corruption.

Bans spurns expo tax pleas, Page 2
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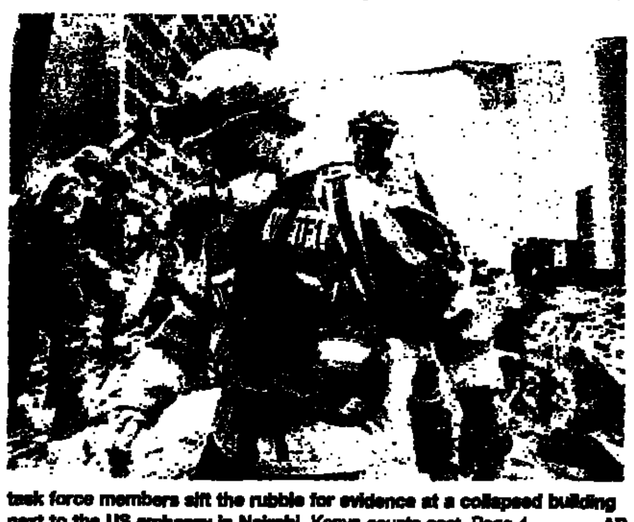


task force members sift the rubble for evidence at a collapsed building next to the US embassy in Nairobi. Kenya counts cost, Page 4 AP

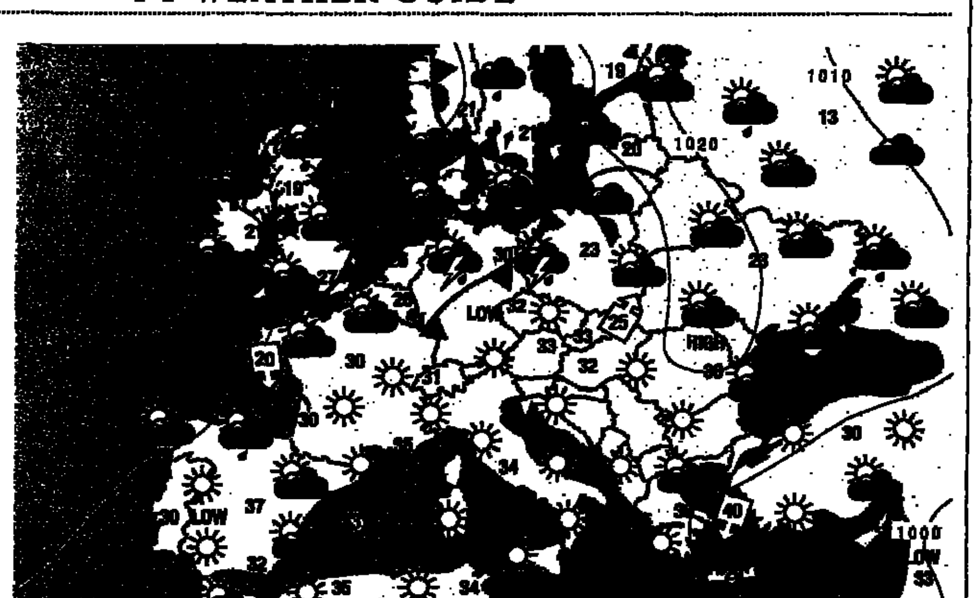
FT WEATHER GUIDE

Europe today

Much of western and central Europe will have hot sunshine, but clouds over Poland and northern Germany will bring scattered heavy showers or thunderstorms. Towards evening, north-east France will have thundery showers. Southern Scandinavia will become wet, with heavy rain over Norway. Southern Europe will stay sunny but not quite as hot as recently.

Five-day forecast

Heavy or thundery showers will give way to heavy rain tomorrow from the Baltic states to the Pyrenees. The thundery showers will move across eastern Europe on Friday. Scandinavia will remain unsettled, and the south will stay sunny.



Situation at midday. Temperatures maximum for day. Forecasts by "PA" WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	40
Accra	Fair	26
Algiers	Sun	35
Amsterdam	Fair	26
Athens	Sun	36
Atlanta	Thunder	34
B. Aires	Shower	13
B.ham	Fair	24
Bangkok	Thunder	32
Barcelona	Sun	30
Beijing	Fair	31
Belfast	Shower	19
Belgrade	Sun	31
Berlin	Fair	30
Bermuda	Thunder	31
Bogota	Fair	19
Bombay	Rain	30
Brussels	Fair	28
Budapest	Sun	32
C.hagen	Shower	24
Cairo	Sun	35
Caracas	Fair	32
Cardiff	Fair	22
Casablanca	Fair	26
Chicago	Sun	24
Cologne	Thunder	31
Dakar	Fair	30
Dallas	Thunder	37
Delhi	Fair	30
Dubai	Sun	42
Dublin	Fair	21
Dubrovnik	Sun	35
Edinburgh	Fair	20
Faro	Sun	27
Frankfurt	Sun	34
Geneva	Sun	34
Gibraltar	Sun	30
Glasgow	Shower	19
Hamburg	Fair	28
Helsinki	Fair	19
Hong Kong	Shower	30
Honolulu	Fair	32
Istanbul	Sun	31
Jakarta	Cloudy	32
Jersey	Cloudy	20
Johannesburg	Fair	21
Karachi	Fair	38
Kuwait	Sun	48
L. Angeles	Sun	27
Las Palmas	Fair	27
Lima	Fair	20
Lisbon	Sun	30
London	Fair	27
Lux.bourg	Sun	31
Lyon	Thunder	34
Madeira	Sun	27
Madrid	Fair	37
Majorca	Fair	33
Malta	Sun	33
Manchester	Fair	21
Manila	Thunder	34
Melbourne	Rain	15
Mexico City	Fair	28
Miami	Thunder	34
Milan	Sun	37
Montreal	Shower	20
Moscow	Rain	13
Munich	Sun	35
Nairobi	Sun	24
Naples	Sun	35
Nassau	Thunder	33
New York	Fair	27
Nice	Sun	31
Nicosia	Sun	34
Oslo	Rain	21
Paris	Fair	30
Perth	Fair	23
Prague	Sun	32
Rangoon	Rain	29
Reykjavik	Rain	14
Rio	Fair	25
Rome	Sun	34
S. Frsco	Sun	28
Seoul	Shower	30
Singapore	Fair	31
Stockholm	Cloudy	21
Strasbourg	Thunder	34
Sydney	Fair	18
Tangier	Sun	27
Tel Aviv	Sun	33
Tokyo	Thunder	29
Toronto	Fair	24
Vancouver	Fair	25
Venice	Sun	36
Vienna	Sun	33
Warsaw	Fair	23
Washington	Fair	31
Wellington	Shower	13
Winnipeg	Thunder	29
Zurich	Sun	33

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FINANCIAL TIMES
COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1998 WEDNESDAY AUGUST 12 1998 Week 33

INSIDE

UPM-Kymmene predicts 'more forestry sector consolidation'

UPM-Kymmene, the Finnish pulp and paper manufacturer, predicted further consolidation in the world's fragmented forestry products industry, as four of Europe's leading paper groups announced improved first-half results. Page 12

Consumer spending boosts Wal-Mart

Wal-Mart Stores, the US store operator, posted another profits surge in its second quarter, boosted by the continued strength of US consumer spending. Net profits were up 30 per cent, from \$795m to \$1.034bn, its first non-Christmas season figure of over \$1bn. Page 14

Tokyo bears brunt of yen drop

The yen again rode roughshod over Asian markets, slipping to an eight-year low against the dollar. Japan's Nikkei 225 Average has dropped 5.9 per cent in seven days. It ended 1.4 per cent lower at 15,406.99 yesterday. Page 32

GeoCities higher in early trading

GeoCities, the online community of chat pages and personal websites, launched its initial public offering. One of the most eagerly awaited listings of the summer, the stock opened at \$33 a share on the Nasdaq. Page 14

Goldman offer to create windfalls

Protestations by Goldman Sachs' co-chairmen Jon Corzine and Hank Paulson (left), that the investment bank's move to public status is strategically motivated have some credibility, since partners had repeatedly rejected proposals to take the firm public. But Goldman's 189 partners do stand to gain a massive windfall, totalling at least \$40m each, with the firm's top executives receiving about \$250m. Page 14

Small oil producers feel the pinch

Times are hard for America's small oil producers. The Independent Petroleum Association of America has warned of a "crisis" for the US if the small producers, who operate 500,000 marginally economic wells across the country, are driven to the wall. Page 22

Greece allows bigger drachma deals

Greece is to increase the size of drachma issues by foreign borrowers in order to accommodate the growing number of institutions keen to gamble on Emu interest rate convergence in drachma-denominated debt. Page 20

Boosey & Hawkes prospects unclear

Though Boosey & Hawkes, the instrument maker and music publisher, survived the threat of sale, it is difficult to see where real growth will come from in the short term. Page 15

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MARKET STATISTICS

Electrolux buoyant at half-year

Reorganisation takes effect at Swedish appliances group

By Tim Burt in Stockholm

Electrolux, the world's largest supplier of household appliances, yesterday announced a sharp increase in first-half profits as buoyant European and US demand and the benefits of restructuring overcame heavy sales declines in Asia and Brazil.

Underlying profits at the Swedish group, which is half-way through a SKr2.5bn (\$315m) overhaul, jumped 31 per cent to SKr3.05bn on sales up from SKr57.3bn to SKr60.9bn.

Michael Treschow, who took over as chief executive last year, said the figures reflected improved productivity and rising volume sales in Europe and North America – which rose 7 and 11 per cent respectively in the six months to June 30.

Electrolux's overwhelming exposure to those markets more than offset declines in south east Asia, where sales halved, while demand in Brazil slumped by almost a third.

Mr Treschow said the group had taken a SKr175m charge to meet the reduced demand. After stripping out such items, the second quarter operating margin had reached 5.7 per cent, "the highest margin for any quarter since 1989".

Although Mr Treschow admitted it was some way from achieving a margin target of between 6.5 and 7 per cent, Electrolux's most commonly traded B shares defied a 108.24-point fall in Stockholm's SX index by rising SKr4 to SKr128.50.

For the year as a whole, he said, stable market conditions in Europe and the US – coupled with further restructuring benefits – should lead to a considerable improvement in full-year profits.

"It is a remarkable comeback and should pay further dividends once the company fully completes its reorganisation and closure programme," said one analyst in London.

So far the group has closed or sold 12 small plants in its professional appliances division and has reduced its workforce by 3,300. Of the 12,000 job losses announced when the restructuring was unveiled last autumn, some 7,100 have now gone.

Mr Treschow said the group would use the remaining SKr1.32bn of its restructuring provision to withdraw from non-core areas such as industrial laundry equipment, and to shut down three more plants making refrigerators and freezers.

After accounting for last year's SKr2.5bn provisions, pre-tax profits jumped to SKr2.94bn in the first half, compared with a loss of SKr311m last time.

One-off items in 1997 also flattered the headline operating profits, which rose from SKr432m to SKr3.6bn. Earnings per share were SKr5.20, compared with losses of SKr1.1 last time.

Profits rose solidly in all three of the group's main divisions. Household appliances contributed gains of SKr1.69bn, up from SKr1.36bn.

Profits from professional appliances, which has been the target for much of the restructuring, leaped from SKr94m to SKr326m. Outdoor products reported gains of SKr1.24bn, against SKr1.11bn last time.

Swiss pay $153m for stake in Siam City Cement

By Ted Bardacke in Bangkok and William Hall in Zurich

Holderbank, the Swiss cement company, has acquired 25 per cent of Siam City Cement, Thailand's second largest cement company, for \$153m, beating competing offers from Blue Circle of the UK and Lafarge of France.

The purchase is the latest acquisition in south-east Asia by western cement groups taking advantage of local producers weakened by a slump in construction following the regional financial crisis.

Last month, Cemex of Mexico offered \$287m for a 35 per cent stake in Semen Gresik of Indonesia. In June, Holderbank, the world's largest cement company, paid \$28m for a controlling stake in Tenggara Cement, a leading Malaysian producer. In July, the Swiss group agreed to invest \$210m for a 40 per cent share in Union Cement Corporation, the Philippines' biggest producer.

Holderbank's latest purchase is the first step in a three-part rescue of Siam City, which earlier this year stopped principal repayments on its \$800m foreign debt. In the coming months the company will increase capital by up to \$300m, via a rights issue, and sign a debt restructuring deal with its main lenders.

The move should kick-start consolidation and foreign takeovers in Thailand's cement industry, which is wallowing in debt and suffering from the collapse of the country's construction industry.

TPI Polene, which has a debt moratorium in place, has been entertaining offers from foreign suitors, including Holderbank and Cemex, but has been hampered by an inability to reach a debt restructuring deal. Industry leader Siam Cement is consolidating its cement businesses into one subsidiary, which could then take on a foreign strategic partner.

Holderbank is paying the equivalent of \$110 a tonne of capacity for a stake in what it claims is Thailand's most efficient cement producer. It is paying \$153m for its 25 per cent stake, will have a seat on the board, and will contribute another \$55m to the restructuring of Siam City's debt.

Nycomed Amersham's chief executive, Bill Castell, left, and finance director Giles Kerr reported an 8 per cent rise in first half pre-tax profits to £114m (\$188m) for the Anglo-Norwegian company. Report, Page 15 Picture David Ahmed

Bertelsmann to boost centralised distribution

By Alice Rawsthorn in London and Frederick Studemann in Berlin

Bertelsmann, Europe's biggest media group, plans to establish centralised distribution operations for books, music and other consumer products in the UK and Italy.

The UK and Italian operations, which will handle Bertelsmann's own products and those of other companies, will be modelled on the group's vast multi-purpose distribution centres in Germany, France and Spain.

Bertelsmann is also stepping up its efforts to secure third party distribution contracts in Europe. The company is understood to be in talks to win contracts for parts of the continent with EMI, the UK music group, and Sony Music, part of the eponymous Japanese electronics and entertainment company.

Its expansion comes at a time when many areas of European consumer products distribution, notably music and videos, are poised for consolidation. The cost of equipping highly automated distribution centres is so high that many consumer products companies, which have traditionally handled their own distribution, are forming joint ventures with other companies or sub-contracting to third parties.

Sony Music and Warner Music, a subsidiary of Time Warner, the US entertainment company, recently set a precedent by announcing proposals to pool distribution facilities in the UK.

Bertelsmann declined to comment on its European expansion plans. However, it affirmed that the centralised distribution business, run by its Bertelsmann Distribution subsidiary, was one of its fastest-growing activities.

The group, which owns the Random House and Bantam Doubleday Dell book publishers as well as the RCA and Arista record labels, described the possibility of winning third party contracts from companies such as EMI and Sony Music as "typical services" it might offer.

Bertelsman set up its first centralised distribution operation in Germany, initially to handle its core products of books, magazines and recorded music.

The operation has since expanded into other sectors, including mobile phones and mail order catalogues, as well as running call centres for third parties, notably Lufthansa, the German airline.

Four years ago, Bertelsmann started up similar multi-product distribution centres in other European countries, most recently in Spain. The Bertelsmann Distribution division now employs 6,000 people and has annual sales of about DM700m (\$387m), 80 per cent of which comes from third party contracts.

Oxford Health shares down 7% on $507m loss

By John Authers in New York

US health maintenance companies suffered another blow yesterday as Oxford Health Plans, the troubled New York area health management company, announced it had taken a \$507.6m loss on revenues of \$1.19bn in the second quarter.

The news followed last week's \$909m charge from United HealthCare, which covered its strategic withdrawal from the Medicare market in several regions, and the subsequent abandonment of United's planned merger with Humana. This deal, valued at \$5.5bn on its announcement in May, would have created the largest health management organisation in the US.

Dramatic selling of healthcare stocks continued in morning trading on Wall Street. By mid-session, Oxford was down \$⅝ at \$6⅝, a fall of more than 7 per cent for the day. It peaked last year at \$65.

Other health maintenance organisations fell, too. Humana dropped more than 6 per cent, down \$1¼ at \$16⅞. United fell another 5 per cent to \$31⅞. It had been trading at more than \$58 last week before it announced the charge.

All other leading healthcare companies registered falls far worse than that of the market as a whole. Oxford's loss included one-off charges introduced by Norman Payson, the chief executive who took over this year. He said they were aimed at "drawing a line in the sand" and separating the company from its past.

They include a restructuring charge of \$174m, which will cover a range of disposals of subsidiaries. This will involve the company withdrawing from commercial businesses in Florida, New Hampshire and Illinois, and from several Medicaid businesses. It will also attempt to enter a risk-sharing deal with healthcare providers for its Medicare business. Oxford is also taking an unusual charge of \$112m to cover its write-off of its investment in FPA Medical Management, which has filed for bankruptcy protection, and to strengthen reserves.

Before the charges were included, the company lost \$182.04m during the quarter. Its medical loss ratio, expressing its total expenditure on healthcare services as a proportion of the premiums it received, was 102.8 per cent, including the effect of the charges.

Its problems stem from a computer systems problem last year, which meant it failed to spot many serious warnings signals about its financial health and the medical costs it was paying. This also led to serious service problems, with many doctors and other providers complaining they had been left unpaid.

Systems problems and difficulties operating the Medicare business profitably have both been common problems afflicting the sector in the last year.

Under Medicare, the state-sponsored insurance scheme for the elderly, health maintenance organisations' reimbursement rates are controlled by the government and vary from state to state and from county to county, making it very difficult to create computer systems to contain costs.

BOC to axe 3,700 jobs in worldwide restructuring

By Virginia Marsh

BOC, the UK-based industrial gases group, is to axe a tenth of its workforce – 3,700 jobs – in its biggest worldwide reorganisation in two decades.

The group has been badly hit by the east Asian financial crisis and the strong pound. Danny Rosenkranz, chief executive, said the move would cut annual costs by at least £120m (\$198m) within two years and was also aimed at changing the group's approach to business.

"This is not just a slash and burn job," he said. "It's an attempt to look at the business from a different angle, to become more global, and to position ourselves prudently in our markets."

The shares rose 5 per cent in early trading but closed down 4p at 736p, compared with £11.70 a year ago, on disappointment that the measures had not been more radical and on concern at the continuing deterioration in BOC's main markets. "They are making redundancies but I had hoped the job losses would be part of a larger restructuring," said Colin Isaac at Deutsche Bank. "This is defensive. It's a response to deteriorating market conditions and BOC is not doing anything its competitors haven't started to do already."

BOC said it would take charges of about £267m – more than analysts had expected – to cover the reorganisation costs, including the loss of 500 jobs in the UK and 3,200 in the rest of the world, over the next two years.

Mr Rosenkranz, who said when he joined the group two years ago that it would take four years to turn it around, said businesses would be organised on product rather than regional lines. Earlier this year he oversaw the disposal of Ohmeda, BOC's healthcare division, for £640m and agreed the sale of its carbide business.

The announcement came as the group, which in recent years has expanded heavily in Asia, reported pre-tax profits of £272.4m (\$325.4m) on sales down 5.9 per cent at £2.55bn for the first nine months of the year. This includes a £167.3m exceptional charge for the first part of the restructuring and a £144m gain on the sale of Ohmeda. Operating profits fell 8.8 per cent to £363m.

The underlying results were in line with expectations and, although profits fell, analysts said the group's businesses were performing relatively robustly in Asia despite the difficult conditions there. About half of group sales are in Asia and in South Africa, where profits have also been hit by a devalued currency.

BOC warned that economic conditions in the Pacific Rim showed no sign of improvement with weak demand and opportunities for growth hard to find. This had hit its Australian business.

In the UK, the manufacturing sector had been in decline since December and had also begun to fall in the US.

Lex, Page 15

FORESTRY PRODUCTS UPM-KYMMENE CHIEF HINTS AT ACQUISITIONS AS LEADING COMPANIES REPORT RESULTS AHEAD OF FORECASTS

Paper groups 'face further consolidation'

By Tim Burt in Stockholm

UPM-Kymmene, the Finnish pulp and paper manufacturer, yesterday predicted further consolidation in the world's fragmented forestry products industry, as four of Europe's leading paper groups announced improved first-half results.

The company – which is set to be overtaken as the region's largest producer following the $8.5bn merger of Stora of Sweden and Finland's Enso – hinted that it could play a decisive role in future acquisitions.

Juha Niemelä, UPM-Kymmene chief executive, said: "We cannot just watch this consolidation from the sidelines. We are studying and scanning the industry for opportunities."

Announcing sharply increased profits yesterday, Mr Niemelä emphasised the Finnish group was not under pressure to seek deals to redress the balance with the newly *merged Stora Enso*, which also unveiled consolidated figures for the first half.

"We have no need to make a big strategic move but it is obvious to us all that the consolidation trend is gathering pace," he said.

UPM-Kymmene, Stora and Enso – along with Swedish rival MoDo – all announced improved six-month results following price increases in fine paper, newsprint and magazine grades, and better capacity utilisation.

Of the four paper groups, UPM-Kymmene reported pre-*tax profits up from FM3.5bn* to FM5.6bn ($1.08bn), even though sales fell from FM26.4bn to FM25.5bn.

Operating profits rose from FM4.43bn to FM6.08bn, fuelled mainly by a fourfold increase in contributions by magazine papers, which reported gains of FM1.25bn. Earnings per share increased to FM14.67 from FM9.85.

Stora Enso, reporting combined pro-forma figures, said it had also benefited from increase price stability and higher volume deliveries for pulp, paper and board.

The enlarged company, *which is awaiting European* Commission approval for the merger, saw pre-tax profits increase from FM1.65bn to FM2.91bn on joint sales of FM31.8bn, up from FM28.5bn, in the period to June 30.

It announced that it would be seeking a return on capital employed of 13 per cent, while also emphasising improved productivity and cost competitiveness.

MoDo, meanwhile, reported pre-tax profits up by 52 per cent to SKr1.39bn ($172m) in the first half.

The result, achieved on *sales up from SKr11bn to* SKr11.5bn, followed increased prices and deliveries of paperboard and newsprint. Operating profit increased from SKr1.08bn to SKr1.49bn and earnings per share rose to SKr10.80 from SKr7.

Stora Enso and MoDo indicated, however, that pricing pressures had intensified during the second quarter, while UPM Kymmene said orders from Asia had fallen by one-third across all product groups.

Nevertheless, the Finnish group suggested it was better placed than rivals to absorb such pressures because of greater exposure to the US and western European markets.

Investor eyes IT and telecoms as returns sag

By Tim Burt

Investor, the main investment vehicle of Sweden's Wallenberg business empire, vowed yesterday to increase its exposure to high-growth technology and telecommunications stocks after seeing returns on its stock portfolio underperform the Swedish market by 7 percentage points over the past 12 months.

The company – which has controlling interests in companies accounting for 43 per cent of the Stockholm stock exchange – said it had been held back by sluggish growth in parts of its portfolio.

In the year to June 30, Investor's total return amounted to 20 per cent, compared with 27 per cent growth for the stock market as a whole.

Claes Dahlbäck, chief executive, said the group was seeking acquisition and expansion opportunities in four broad areas: information technology, telecommunications, healthcare and financial services.

In particular, he said the company was under-exposed to IT stocks and had not moved fast enough to increase its presence in telecommunications.

Investor, for example, has seen shares in Ericsson increase by 56 per cent during 1998, while shares in bearings manufacturer SKF declined by 14 per cent.

The company owns 3 per cent of Ericsson's share capital and 13 per cent of SKF's.

Officials said that increased investment in high-growth stocks would be coupled with further restructuring among companies that perform more slowly.

This is expected to follow the three-step plan imposed last year by Percy Barnevik, Investor chairman: first, restructure the company; failing that, change the management; finally, arrange a merger or disposal.

Industry analysts suggested yesterday that SKF, which is already undergoing restructuring, was the most likely candidate for further treatment.

Investor said the overhaul, however, was unlikely to keep pace with activity over the past 12 months, in which it has concluded a number of strategic deals.

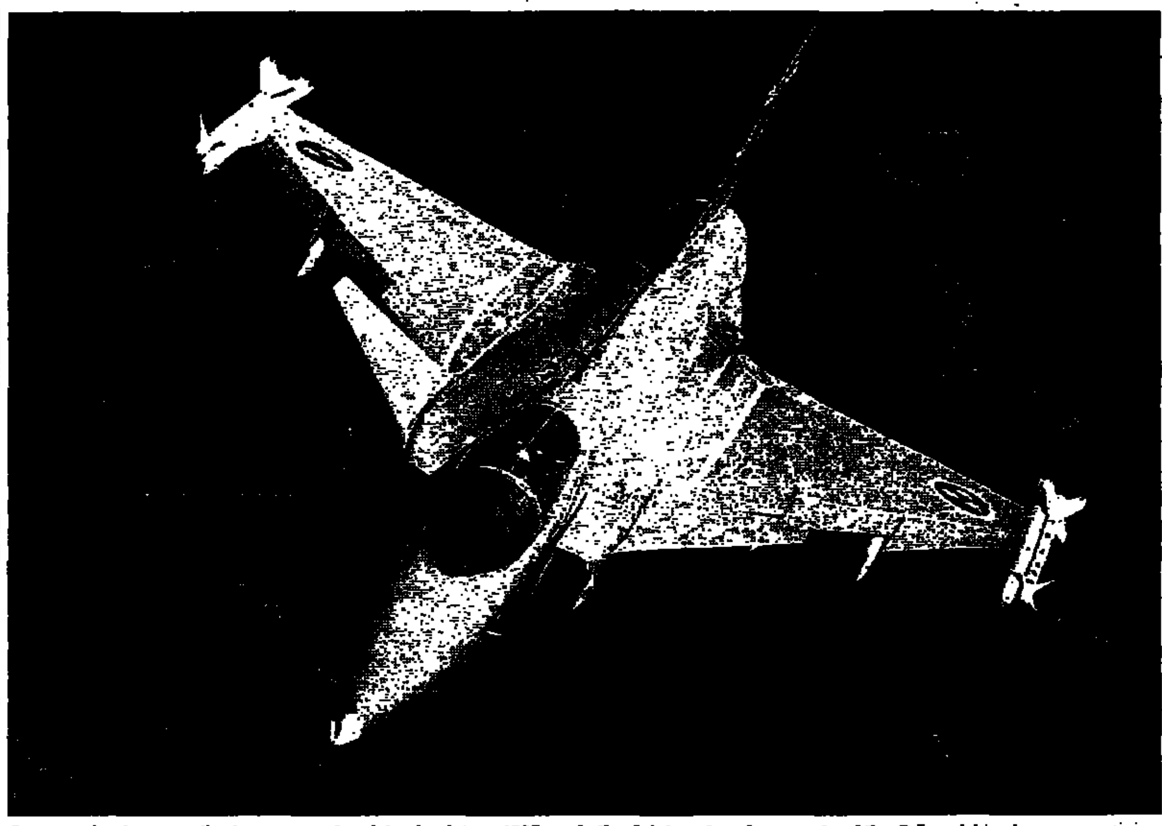
In that period, SE-Banken, its financial flagship, has merged with the Swedish insurer Trygg-Hansa. Saab Aerospace has been listed, with a stake sold to British Aerospace. Astra, the drugs group, has overhauled its US joint venture with Merck, while Stora, the paper group, has announced a merger with Enso of Finland.

In the first half of this year, BAe's acquisition of a 35 per cent stake in Saab and contributions from the stock market listing helped to lift Investor's pre-tax profits from SKr1.51bn to SKr4.26bn ($527m).

The figures were flattered by a SKr3.5bn payment from BAe and SKr2.14bn derived from the Saab share offer.

Investor's net asset value – measured at June 30 – was SKr551a share or SKr110.4bn, compared with SKr442 a share or SKr88.4bn at the end of 1997.

The company's most commonly traded B shares fell SKr10 to SKr409.



Co-operation between the two companies dates back to a 1995 marketing joint venture for exports of the Gripen (above)

Saab and BAe extend links

By Tim Burt

Saab, the Swedish aircraft and defence group, yesterday *signalled the latest phase of* the restructuring in Europe's defence industry by announcing plans to develop joint supply chain and customer support operations with British Aerospace.

This follows BAe's acquisition of a 35 per cent stake in Saab earlier this year, and comes less than a week after three senior BAe executives attended their first board meeting as directors of the Swedish company.

"We are looking at how we can get more out of our relationship with BAe, and we are in the process of hiring more people from the UK to key positions in Saab," said Bengt Halse, chief executive.

Saab is understood to be negotiating with a number of BAe staff about moving to *its Linköping headquarters* in southern Sweden.

Mr Halse is keen to tap BAe's expertise in supply chain management and customer support in regional aircraft, an area where Saab has decided to transform itself from an aircraft manufacturer into a component and airframe supplier.

Co-operation between the two companies dates back to a 1995 marketing joint venture for exports of the Gripen, Saab's fourth generation combat aircraft.

Although the Gripen has yet to secure its first export order, Mr Halse said BAe and Saab believed it could capture 20 per of the estimated 400-aircraft demand for such fighters.

The companies are also *co-operating on a bid to supply* new generation air-to-air missiles for the UK ministry of defence.

Mr Halse said such work and the commitment towards restructuring by defence ministers in the UK, France, Spain, Italy and Sweden opened "significant possibilities" for Saab.

He was speaking after Saab unveiled maiden half-year profits following its listing last month on the Stockholm stock exchange.

The company – floated by Investor, the main investment vehicle of Sweden's Wallenberg business family - saw pre-tax profits jump from SKr177m to SKr475m ($58.8m) despite flat underlying sales of SKr3.67m in the six months to June 30.

At the operating level, the absence of losses and restructuring costs associated with regional aircraft enabled Saab to announce a SKr344m profit, compared with a SKr38m loss last time.

Of the ongoing businesses, the sharpest increase was achieved in military aerospace, where profits rose from SKr117m to SKr286m amid buoyant demand for avionics and further Gripen deliveries to the Swedish air force.

Maiden earnings per share came in at SKr3.11. The group's most commonly traded B shares fell SKr1.50 to SKr70.50.

Decline in oil price hits Neste

By Tim Burt

Neste, the Finnish oil and petrochemicals group, yesterday blamed weak oil prices and increased exploration costs for a sharp fall in first half profits.

The company, which is merging with state power group Imatran Voima (IVO), said pre-tax profits fell to FM255m ($47m) in the six months to June 30 from FM460m last time, as sales shrank from FM22.3bn to FM19.8bn.

The figures were expected to be the last separate first-half results from Neste before its merger with IVO. This summer the two companies became subsidiaries of Fortum, a new holding group due to be privatised by the Finnish government this autumn.

For the first half, Neste saw profits fall in three of its four main divisions. In spite of volatile crude prices, the oil division reported profits up from FM258m to FM343m. That contrasted sharply with the exploration and production arm, where profits fell from FM222m to just FM60m. Contributions from the energy and chemicals divisions fell respectively from FM213m to FM194m and from FM159m to FM123m.

Earnings per share fell to FM3.93, down from FM1.79.

At IVO, meanwhile, pre-tax profits fell from FM1.56bn to FM1.04bn on reduced sales of FM6.6bn, down from FM6.99bn in the first half. Lower electricity sales and a weaker contribution from engineering activities depressed the figures. Operating profits *declined* to FM1.33bn from FM1.52bn, although earnings per share rose modestly to FM7.46.

PetroFina shares fall 5% on results

By Neil Buckley in Brussels

Shares in PetroFina fell 5 per cent yesterday after the Belgian oil and petrochemicals group reported a fall in first-half net profits from BFr10.95bn to BFr9.71bn ($265m).

But the company insisted its results compared favourably with competitors. Underlying profits before exceptional items were broadly flat at BFr10.96bn, against BFr11.04bn last year.

The bottom-line figure was distorted by a BFr2.7bn gain on asset sales in the US and Africa, offset by a BFr4.3bn write-down on the value of stock after the oil price fall.

Analysts said the results were in line with expectations, and the share price decline was largely a correction after PetroFina shares bucked the Brussels bourse's recent downward trend on Friday and Monday.

Some analysts also warned of a difficult second half, with oil prices now below even the depressed average level of the first half. But the cyclical downturn affected PetroFina less than some of its peers as it is less dependent on exploration and production.

Higher refining margins in Europe and the dollar's strength pushed pre-tax earnings in the downstream sector up almost 10 per cent from BFr5.4bn to BFr5.59bn – despite a BFr1.7bn loss on stocks.

Earnings in the chemicals sector also recovered strongly, increasing from BFr5.78bn to BFr6.37bn.

Upstream earnings fell 26 per cent from BFr12.9bn to BFr9.48bn.

Group turnover rose 4 per cent from BFr340.3bn to BFr352.9 bn.

Israeli retailers edge ahead in half

By Judy Dempsey in Jerusalem

Supersol, one of Israel's largest retailing groups, and Osem, its smaller competitor, yesterday reported modest increases in revenues and net income for the first six months, in spite of a continuing slowdown in the economy.

Supersol's net income rose from Shk48.37m to Shk68.24m ($18.5m), while revenues climbed from Shk2.26bn to Shk2.38bn.

Sales at Osem, in which Nestlé, the Swiss food producer, recently lifted its stake from 40 per cent to 47 per cent, climbed from *Shk770.3m to Shk873m.* Net income increased from Shk32.7m to Shk36.3m.

● Israel's First International Bank reported a 11.7 per cent decline in net income for the second quarter, blaming higher provisions for doubtful mortgage debts and the costs of introducing a new credit card.

Net income for the quarter fell from Shk55.3m to Shk41.5m, while for the first half it declined from *Shk104.3m to Shk92.1m.* Income before debt provisions rose from Shk418.7m to Shk442.4m for the half.

NEWS DIGEST

BANKING

Dresdner in exploratory talks with PaineWebber

Dresdner Bank of Germany has held exploratory talks with PaineWebber, the US brokerage, as part of its drive to increase its US investment banking and asset management presence. Analysts said a deal with PaineWebber – in which Dresdner might be joined by Allianz, the German insurance group which is a big shareholder – could enable the bank to meet its strategic goal of expanding its US activities. Neither Dresdner nor PaineWebber would comment on reports of talks, which have not yet reached the negotiating stage. But banking sources said discussions had taken place, noting that Dresdner has constantly reaffirmed its US ambitions.

Analysts also said Dresdner indicated at a recent analysts' meeting that talks were being held on possible deals in Europe and the US. "I would not be surprised if it was talking to PaineWebber or a variety of US firms," said Neil Crowder, banking analyst at Goldman Sachs. "This does not mean a merger will inevitably take place." Michael Klein, analyst at Sal. Oppenheim, said Allianz and Dresdner could jointly manage a purchase of PaineWebber, at up to $9bn, with relative ease – but it would be a big deal for Dresdner to undertake alone.

In New York, PaineWebber shares rose 6 per cent to $47⅞ in morning trading. With assets under management of some $55bn, it is primarily a retail brokerage and asset management firm, enjoying only modest success in investment banking. Other potential targets for Dresdner include Donaldson, Lufkin & Jenrette, majority-owned by Axa-UAP of France, and Lehman Brothers, an independent investment bank which has seen a resurgence in profitability. **Andrew Fisher, Frankfurt and Tracy Corrigan, New York**

See Lex

FRANCE

Bouygues expects upturn

Bouygues, the French construction, television and tele*communications group, yesterday reported a 2.4 per cent* advance in first-half turnover and said it expected an upturn in its building and public works activities in the second six months.

The company, the subject of a simmering feud between the Bouygues family and Vincent Bolloré, a French financier with a sizeable group of his own, said its building and public works activity *"has reached its lowest point and should recover during the second half of 1998".* It said its order book in the sector stood at FFr22.3bn ($3.7bn) at end-July 1998, against FFr20.8bn a year earlier.

Bougues reported first-half turnover of FFr43.4bn, against FFr42.4bn in 1997. Construction was one of the parts of the Bouygues business that attracted Mr Bolloré, who has built up a stake of 11 per cent in the group. The shares climbed FFr8, or 0.8 per cent, to FFr1,073, significantly outperforming the benchmark CAC-40 index which fell another 2.4 per cent. **David Owen, Paris**

DIAMONDS

Asia affects De Beers

De Beers, the South African diamond mining and investment group which has sought to revive a flagging diamond market by restricting the supply of precious stones, yesterday reported sharply lower profits in the first half of the year. Combined net earnings of De Beers Consolidated Mines and its Swiss sister company De Beers Centenary fell 57 per cent to $336m, largely because of lower diamond income. Combined dividends were maintained at 27.4 cents. De Beers blamed the loss of sales in Japan and south-east Asia. **Victor Mallet, Johannesburg**

See Lex

AUSTRIA

Erste Bank ahead 6.5% midway

Erste Bank, Austria's second biggest, increased pre-tax profits 6.5 per cent to Sch2.25bn ($180m) in the first half of 1998. Net interest income fell to Sch5bn, commission *and fee income rose 20 per cent to Sch2bn,* and net profit from trading activities rose 12.5 per cent to Sch776m. Operating expenses rose 5.4 per cent, to Sch6bn, and the group's cost/income ratio fell from 73.1 per cent to 72.9 per cent. Erste Bank's shares have outperformed the market since they were floated last December at Sch610. **William Hall, Zurich**

هكذا من الاصل

INVESTMENT TRUSTS OVERSEAS GROUPS TAKE ALMOST ONE-TENTH OF JAPANESE MARKET AS FUNDS UNDER MANAGEMENT LEAP 120%

Foreign fund managers surge in Japan

By Gillian Tett in Tokyo

Foreign financial companies have now seized almost one-tenth of the entire Japanese investment trust market, as their funds under management surged 120 per cent during the past year. Total assets under management at the 19 foreign companies rose to Y4,180bn ($28.5bn) at the end of July, 12.5 per cent higher than a month earlier.

These companies now control 9.3 per cent of the onshore investment trust market, against 4 per cent a year ago, the Japanese investment trust association said.

The increase illustrates the inroads foreign companies are making in Japanese mutual funds as Japan's "Big Bang" financial deregulation attracts new groups into the country. Until recently the market was almost exclusively dominated by Japanese brokers.

The surge also highlights how the recent fall in the yen and the weakness of the Japanese economy is persuading growing numbers of Japanese investors to purchase non-yen instruments.

Non-Japanese companies generally specialise in offering non-yen instruments, such as European and US bonds, which have surged in popularity in Japan in the past year. Japanese asset management groups, by contrast, tend to offer primarily yen-based products.

Clifford Shaw, president of Merrill Lynch Mercury Asset Management in Japan, said: "There are a lot of factors which favour the foreigners at the moment, because we offer asset classes which have done better because the yen has fallen and interest rates are low."

Some western fund managers suspect the surge will continue as deregulation persuades Japanese savers to move their money out of banks and life assurance groups. "I think we have only scratched the surface," Mr Shaw said.

Others believe the surge by foreign groups could end if the Japanese economy suddenly picks up or the yen recovers. Edwin Merner, of the Atlantis fund, management group said: "Japan is a country of fashion and right now foreign bonds are flavour of the month, but people are not thinking about the credit risk or foreign exchange risk."

The data show that Goldman Sachs was the largest foreign investment trust manager, with some Y1,217bn under management.

Credit Suisse was the second largest, with Y383bn under management, followed by Alliance, with Y741bn of funds.

Dalwa and Nomura were the largest Japanese managers, with Y11,309bn and Y10,337bn under management respectively.

Financial big boys of the West go on a 'dating frenzy'

Cross-border alliances rapidly being formed among banks, brokers and finance groups following Big Bang, writes **Gwen Robinson**

For foreign financial groups, the trouble with Japan these days is not finding an opportunity – there are too many opportunities," a European investment bank executive said recently. "The problem is finding the right one."

In just one year, foreign financial groups have moved at astonishing speed into the Japanese financial market, previously dominated by Japan's big banks, brokers and financial services groups.

Not only have they seen previously impenetrable barriers crumble under Japan's "Big Bang" financial reform, but they are now being courted for their marketing know-how and management expertise. The result has been what one broker calls a "financial dating frenzy" across markets, including mutual funds, consumer credit and insurance.

"Japan for us is the biggest growth opportunity outside the US," says Bill Wilder, president of Fidelity Investments Japan, which is pursuing multiple strategies including direct retailing. "The growth here will be incredible, once things like K-style [defined contribution] pension plans take off." The next big trigger will be the entry in December of Japanese banks to the mutual fund market, followed by expected deregulation in 2000 of pension plans.

Western companies must now decide whether to find a domestic partner, or several, or to go it alone.

The biggest western groups have pursued the boldest strategies, buying their way into the market to challenge Japanese competitors head-on.

Among the most striking moves, GE Capital, the financial services arm of the US General Electric group, has made a number of strategic acquisitions. Most recent was its deal to acquire Lake, Japan's fifth largest consumer credit company, marking the first full-scale entry by a western group into the country's booming consumer finance market. This followed a landmark agreement with Toho Mutual, a life assurance company, to develop and distribute western-style insurance products.

Mutual funds account for less than 4 per cent of the country's $8,190bn household savings pool.

In an equally bold step, Merrill Lynch became the first foreign broker to acquire a national retail network, through the takeover of more than 30 branches and 2,000 staff of the failed Yamaichi Securities.

Travelers Group, meanwhile, has formed an investment banking joint venture with Nikko Securities, one of Japan's top three brokers, and invested $1.6bn to acquire a 25 per cent stake in Nikko. Through its planned $80bn merger with Citicorp, Travelers will also link with Citibank, the only foreign bank running a retail service in Japan.

After a difficult start in Japan, Citibank last month announced a one-year plan to increase its domestic network, from 19 to 30 branches, and add 300 personnel to its 1,020 staff.

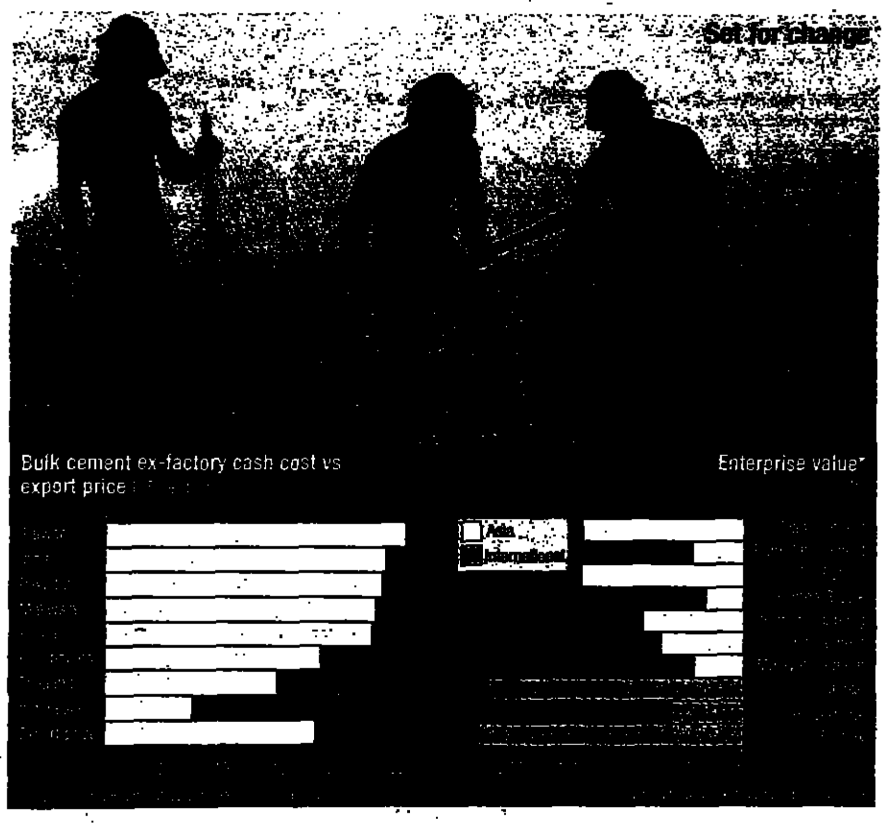
The big push now is to prepare for December's lifting of the ban on banks selling mutual funds directly to clients. Mutual funds account for less than 4 per cent of the country's Y1,200,000bn ($8,190bn) household savings. But growth has been rapid in the past year and the foreign share has soared from 2 per cent to 7 per cent, representing Y555bn worth of sales in June.

"The biggest growth in the mutual fund market will be through wholesale channels, in pension funds, especially after banks come on line in December. But in terms of percentage growth, retail will probably have the highest growth rates – although it's coming from a very low base," says Mr Wilder.

As an initial step, the government last December allowed banks to rent space to investment companies to sell mutual funds. Since then, when Fidelity opened its first booth in a branch of Sanwa Bank, business has surged. The group now operates booths at branches of six banks and will shortly go to nine. By this December, when Fidelity will close its booths and sell through banks, it will be well positioned to have its product included in the banks' ranges of mutual funds. "For us, getting into those banks will be the next big area of competition," Mr Wilder says.

Cross-border alliances have lured some of the biggest names, because the "quality partnerships cost money", according to one analyst. Prudential Insurance of America said last month it would spend $25m or more to form a partnership with Mitsui Trust & Banking to develop and market mutual funds. Among other big groups, Putnam Investments of the US, Commerz International Asset Management and Allianz have all invested in strategies to penetrate the Japanese market.

In the end, size does appear to matter. "Bigness of name helps," says Mr Wilder.



Holderbank builds in Asia

Thai stake is latest move by an overseas group into the region's cement industry, report **Ted Bardacke and Sander Thoenes**

Yesterday's acquisition by Holderbank of Switzerland of a stake in Thailand's Siam City Cement is the latest, but certainly not the last, move by foreign investors into south-east Asia's battered cement industry.

As big international cement companies pick over the carcasses of the region's devastated businesses, they are focusing not on traditional measures such as supply, demand and investment costs, but on production costs and export potential.

The reason is simple. On top of billions of dollars in unhedged foreign debt, the industry faces severe overcapacity and a shift to exports that analysts had not expected until the turn of the century.

Before the economic crisis, companies throughout the region were already increasing supply much faster than demand, but there was still a capacity deficit that kept prices high and provided little incentive to export.

Now demand has been slashed too: Thailand was down 42 per cent in the first five months of the year and the decline is accelerating, while Indonesian cement companies – the big potential winners in the new export game – saw sales fall 28 per cent to 8.9m tonnes in the first half.

To survive, which now often means being taken over by a financially sound overseas group, exports and low production costs are crucial, analysts say.

"Companies not only have to be domestically competitive but internationally competitive as well," says Timothy King, regional cement analyst with Indosuez W.I. Carr Securities in Singapore. "Cross-country cost competitiveness is now a major issue."

Hence the excellent long-term outlook for Indonesia and more difficult prospects for Thailand – a reversal of the situation in many heavy industries in the region's two biggest countries and cement markets.

Malaysia and the Philippines have also seen a wave of acquisitions led by Holderbank and the world's three other big cement companies, Lafarge of France, Blue Circle of the UK and Cemex of Mexico.

The real gems are in Indonesia, which has the only companies in south-east Asia that can make a reasonable profit on cement exports, given the collapse of the export price to $21 a tonne – less than half the price of a year ago. Thai companies, according to Mr King, just about break even on a cash basis and therefore are vulnerable to further price declines.

The three main Indonesian cement companies – Semen Gresik, Indocement Tunggal Prakarsa and Semen Cibinong, which control 90 per cent of the market – are all expected to sell stakes to foreigners to stay in business.

Indonesian officials in July signed a conditional sales agreement with Cemex for a 35 per cent stake in Semen Gresik, a partially privatised cement plant.

Cemex offered $287m, more than double the latest market price. It also offered to buy 16 per cent more on the open market at the same price to obtain majority control. Holderbank and Lafarge have been invited to make counterbids this month.

The losers in this tender may well take a look at the smaller two companies once Gresik has been sold. But the successful sale of Gresik does not guarantee high bids for its competitors. Gresik drew much of the attention because it was by far the largest cement company for sale, the only one to report a profit and, before the bid was made, valued at $46 a tonne of capacity, or less than half of its competitors.

Moreover, Indocement and Semen Cibinong have each stopped servicing more than $900m in offshore debt, while Gresik continues servicing a mere $250m to offshore lenders. Gresik's sales rose in the first half, despite falling domestic demand.

In Thailand, some analysts say that Siam Cement appears to have hit an export jackpot, having raised exports to 30 per cent of revenues from just 9 per cent before the crisis. But Chumpol Na Lamliang, president, says the company is barely profitable.

"Excess capacity in pulp and paper and other industries you can export. Excess cement is marginally exportable but adds nothing to the bottom line," he says. "We should have anticipated that more. It would have saved us a few hundred million dollars worth of investment in the cement industry, which now is a plant which is just sitting there and will not be used further."

Additional reporting by William Barnes in Bangkok

NEWS DIGEST

SHIPBUILDING

Won's fall helps Samsung Heavy return to black

Samsung Heavy Industries, the South Korean shipbuilder, reported first-half net profits of Won51bn ($38m), compared with a loss of Won91.3bn a year ago, as a weaker currency boosted export earnings. Sales rose 12 per cent to Won1,970bn. The fall of the won against the dollar is expected to boost first-half profits for Korean shipbuilders, as exports are dollar-denominated. The weaker currency is also expected to lead to new orders. **John Burton, Seoul**

ELECTRONICS

Pioneer slides 83%

Pioneer, one of Japan's leading electronics manufacturers, yesterday announced an 82.7 per cent decline in first-quarter net profits after taxes and exceptionals, to Y177m ($1.3m). Operating profits tumbled 60 per cent to Y780m. The group blamed the results on weak sales in Asia and South America, increased price competition in consumer electronics, and costs associated with a deferred income tax payment. The total tax charge increased 14 per cent from the previous year to Y1.47bn.

However, the group reported steady growth in sales, both at home and overseas. Turnover rose 7.1 per cent to Y139bn, which the company said reflected gains from the weak yen.

Overseas sales, which were up 8.8 per cent to Y94.7bn, accounted for 68 per cent of turnover.
Alexandra Harney, Tokyo

KOREA

LG in talks on copper unit

South Korea's LG Group said it was holding discussions with three foreign bidders on acquiring a stake in LG Metals, its copper smelting unit, as part of a plan to raise $6.5bn in investment capital from overseas. LG confirmed local media reports that Glencore, the Swiss-based commodity trading company, was one of the potential buyers for the company's facilities in Onsan, South Korea, with a decision expected in autumn.

LG hopes to gain $1bn from the asset sale, which would be one of the largest foreign investments in Korea. The Korean government is pressing LG and other Korean conglomerates to restructure by disposing of non-essential subsidiaries. **John Burton**

ENTERTAINMENT SALE WILL MAKE CALIFORNIA-BASED WHEREHOUSE ONE OF THE LARGEST US RECORD RETAILERS

Viacom sells Blockbuster Music chain for $115m

By Alice Rawsthorn

Viacom, the US media group, has concluded negotiations to sell its 378-strong chain of Blockbuster Music stores to Wherehouse Entertainment, a rival US record retailer, for $115m in cash.

The acquisition will establish Wherehouse, which has built up a chain of 220 stores from its base in Torrance, California, as one of the larger US record retailers.

Until now, Torrance's interests have been concentrated in just seven states.

It will gain a far wider regional spread of interests by adding the Blockbuster Music outlets, which are dispersed across 33 states.

For Viacom, which owns MTV networks and the Paramount movie studio, the disposal of Blockbuster Music is in line with its strategy of reducing its debt by selling activities outside its core media and entertainment interests.

Viacom recently sold the Simon & Schuster book publishing business to Pearson, the UK media group which owns the Financial Times, for $4.6bn.

Having sold Blockbuster Music, it is considering the possibility of selling or spinning off its Blockbuster Entertainment video rental chain next year.

The video chain, which is considerably larger than Blockbuster Music, includes 4,000 stores in the US and 2,000 elsewhere.

Viacom affirmed yesterday that the disposal was still under consideration, but said it had yet to make a final decision.

If it decides to go ahead, Viacom intends to time the transaction for the fourth quarter of 1999, for tax reasons.

Until recently, Blockbuster Entertainment was one of Viacom's weaker divisions, but its performance is reported to have improved after a restructuring exercise which involved Viacom taking a $437m charge in the first half to write down its inventory value.

Blockbuster Music has been unofficially up for sale ever since Viacom bought Blockbuster Entertainment five years ago.

However, until recently Viacom's hopes of finding a buyer were impeded by the weakness of the US music market and the instability of the record retailing sector.

The market has strengthened since the start of this year.

Wherehouse announced in May that it was interested in purchasing Blockbuster Music, which achieved profits before interest and tax of $1.9m in 1997 on turnover of $590m.

The deal is scheduled for completion in the fourth quarter of this year.

Sumner Redstone, Viacom's chairman, said it would "enhance [Blockbuster's] ability to focus on what it does best".

GeoCities higher in early trading

By John Labate in New York

After a delay caused by US stock market turbulence, GeoCities, the online community of chat pages and personal web sites, launched its initial public offering yesterday.

The stock, one of the most eagerly awaited new listings of the summer, opened in early afternoon at $32 a share on the Nasdaq, almost twice the offer price of $17.

Expectations had mounted since the share price was raised twice before the offering. The offering of 4.75m shares was expected to be priced at between $12 and $14 a share, but was increased late on Monday to $17 a share as demand mounted.

However, soon after opening yesterday, the share price fell to near the $32.

"It's being hurt by the broader market," said Ken Fleming, IPO analyst at Renaissance Capital in Greenwich Connecticut. "When the Nasdaq is off 50 points it's hard for a technology stock to have a blockbuster opening."

US shares plunged in early trading as a broad-based sell-off gripped the market and by early afternoon the market showed little sign of improving.

"This is probably going to make people jittery about committing to after-market positions in the stock," said David Menlow, president of the IPO Financial Network in Springfield New Jersey.

GeoCities, based in Santa Monica California, operates one of the most popular web sites, which offers users a range of chat-based communities.

Recent research ranked GeoCities as the third most popular web-site for at-home computer users. The company's solid name-recognition among consumers led analysts to expect one of the strongest IPO openings of the summer.

See World Stocks

Market turmoil hits Mexican finance stocks

By Henry Tricks in Mexico City

Mexico's largest financial groups saw shares pummelled yesterday as turmoil in worldwide emerging markets drove up domestic interest rates and led to fears of steep trading losses.

Bank valuations were also hit by a growing controversy over the cost of a $65bn rescue of the banking system in the wake of the 1995 economic crisis.

Opposition parties blocked the government's efforts to absorb the cost of the bail-out, which has raised questions about the fate of emergency government obligations given to the banks in lieu of bad loans.

The widely traded B shares of Mexico's two largest banking groups, Grupo Financiero Bancomer and Banacci, owner of Banamex, were down more than 10 per cent at midday yesterday. Their prices are at less than half the peak reached in early May, sharply underperforming the Mexican market, which has also slumped.

Analysts say investors have ignored improvements in the two banks' core business of lending in recent quarters to focus on the bad news.

In the second quarter, both reported significant loan growth, albeit in the context of a fast-growing economy. Their past-due loans, which crippled the system during the 1995-97 banking crisis, also fell.

Instead, attention has centred on the banks' vulnerability to swings in interest rates, especially because of their impact on the cost of funding in the interbank market, where banks acquire overnight loans to support lending. Higher rates also raised fears of new loan defaults.

On Monday, Banco de Mexico, the central bank, moved to tighten liquidity to shore up the peso and head off inflationary fears.

Investors have also steered clear of bank stocks because of the controversy over Fobaproa, the contingency fund that spent 14.5 per cent of GDP bailing out the banks in the last three years, giving banks zero-coupon notes as assets in exchange for acquiring part of their loan portfolios.

"The whole Fobaproa issue has cast a cloud over the banks because no one knows how it's going to affect them," said Paul Warme, bank analyst at Paribas in New York.

"The question now is whether the government will have to renegotiate these [Fobaproa] agreements, and if so, to what extent."

Goldman Sachs aims to spread the IPO spoils

Firm's 189 partners will each receive at least $40m but even junior staff will enjoy windfalls, says **Tracy Corrigan**

In an era when the spread of stock options and the rapid rise of the stock market have provided unprecedented riches for executives of many US companies, the conversion of Goldman Sachs into a publicly quoted company will nevertheless be an unusual exercise in wealth creation.

Goldman Sachs, whose partners formally voted on Monday to abandon 130 years of partnership, will raise $3bn-$5bn in an initial public offering this autumn.

But this represents only 10-15 per cent of the total value of the firm, estimated at $25-$30bn. And since the IPO will inevitably be followed by secondary offerings, the total value of the company – currently owned by partners, retired partners and a few outside investors, including Japan's Sumitomo Bank – is being divvied up in the run-up to the flotation.

Co-chairmen Jon Corzine and Hank Paulson, who have backed the shift to public status, have been eager to paint the move as strategically motivated.

The firm, they argue, needs the greater flexibility of a public company's capital structure to remain competitive in a global financial market, although they say they do not envisage embarking on a trail of big acquisitions.

Their protestations that the debate over abandoning the partnership has not been financially motivated have some credibility, since partners have in the past repeatedly rejected proposals to take the firm public, the most recent being two years ago.

But Goldman's 189 partners each stand to gain windfalls totalling at least $40m, with senior partners getting as much as $100m and top executives around $250m.

These numbers are based on estimates which value the firm at about 3.5 to 4 times its book value of $7bn. The exact carve-up will not be clear until the pricing of the IPO.

Of the existing $7bn of capital, about $1.2bn is invested by limited partners, mainly those who have retired from the firm and receive interest on their investment.

They have 10 days from Monday's vote to decide whether to cash out their investments at 1.25 times book value; to take Goldman stock at 1.55 times book value, which they would then have to hold for a set period; or take an eight-year debenture at book value paying 12 per cent annual interest.

In addition, the company's capital also consists of about $1.5bn owned by external investors including Sumitomo Bank.

People familiar with negotiations believe that Sumitomo, which holds prefered stock, will most likely take Goldman stock.

But partners and investors will not be the only ones to benefit from the cashing-in of Goldman's partnership status.

Mr Corzine has argued strongly from the beginning that the spoils of the offering should be shared as widely as possible.

In an internal memo on Monday, he and Mr Paulson said that one of the objectives of the change in structure was "sharing ownership benefits and responsibility more broadly" among employees.

About $6bn of the value of the firm will be spread among all employees below partner level, who will receive 50 per cent of their 1998 compensation and a set amount for each year they have worked at Goldman.

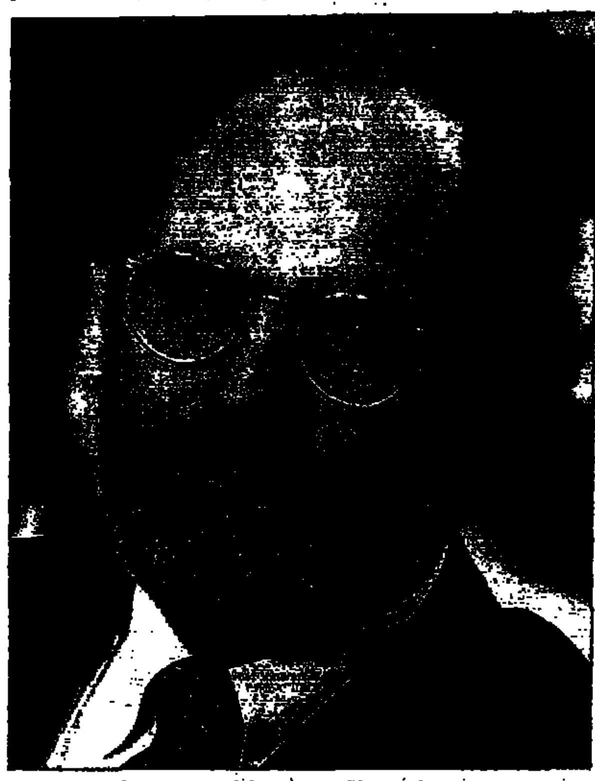
Under this system, even senior staff will receive substantially less than partners, but the best rewarded could gain more than $10m. Nevertheless, the wealth creation for lower-paid employees is expected to be substantial, though not on a par with the millionaires created by options in Microsoft and other high-tech companies.

As well as spreading wealth, Goldman's management must be hoping that the distribution of equity throughout the firm will help maintain a cohesive culture, which competitors are hoping the change in structure will shatter. Previous shifts from partnership to public company at Morgan Stanley and Salomon Brothers proved divisive and resulted in a number of departures from both firms.

As part of its shift towards a public company structure, Goldman has named the six members of its executive committee as members of its new board of directors.

In addition to Mr Corzine and Mr Paulson, these board directors are John Thain, chief financial officer, Roy Zuckerberg and Robert Hurst, vice chairman, and John Thornton, head of Goldman Sachs Asia.

Details of the initial public offering of 10-15 per cent will only be revealed when the company files with the Securities and Exchange Commission later this month or in early September, and in a prospectus which is expected to be filed in early October.



Jon Corzine: keen to avoid divisive wealth creation

Philip Services falls into the red

By Scott Morrison in Toronto

Philip Services' woes continued to mount yesterday after the Canadian waste management company reported a second-quarter loss of US$73m, or 56 cents a share, owing to low commodities prices and higher than expected restructuring costs.

The company said it lost 3 cents a share excluding extraordinary items, while analysts had expected earnings of 2 cents a share before special charges. Philip posted earnings of US$7.5m, or 11 cents a share, during the same period last year.

The earnings report is the latest blow for the company, which has been beset by copper trading losses, accounting inaccuracies, large debt obligations, a plummeting share price and lawsuits filed by investors.

Philip had revenues of US$686m in the quarter compared with US$354m last year, reflecting a series of recent acquisitions. But it was affected by low prices for the metals it sells and by falling crude prices, which led to the deferral of maintenance work at refineries serviced by Philip's industrial services group.

The company took a US$43m loss for the quarter associated with liquidating its copper inventories. The group is trying to return to profitability and reduce debt by selling its metals operations, which account for more than half of revenues. The company incurred US$1.1bn in obligations to finance its rapid expansion.

Philip said a portion of its long-term liabilities had been reclassified as a current liability, given that it did not comply with some loan obligations. The group said it was trying to reach stand-still agreements with its creditors to allow time to complete the sale of its metals operations assets.

Philip's shares were down 15 cents at C$3.75 in late morning trading in Toronto. The shares have fallen more than 85 per cent from their 52-week high of C$27.90 since the copper trading losses were revealed.

Strong US economy helps Wal-Mart surge

By Richard Tomkins in New York

Wal-Mart Stores, the US discount store operator, recorded another surge in profits in its second quarter to July, helped by the continued strength of US consumer spending.

Net profits shot up 30 per cent from $795m to $1.034bn, the first time the company has recorded a profit of more than $1bn outside the peak Christmas season.

Earnings per share rose from 35 cents to 46 cents, beating analysts' forecasts of 44 cents. But the shares eased $¼ to $62⅞ in early afternoon trading as shares tumbled across the board.

US retailers are benefiting from the strength of the domestic economy, which has led to low unemployment, real wage growth and high levels of spending in the stores.

Wal-Mart has been doing particularly well because of its aggressive expansion. It has also attracted more customers into stores by offering goods people want at affordable prices.

Second-quarter sales rose by 18 per cent to $33.5bn. Sales at stores open a year or more rose by 9.5 per cent, comprising a 9.3 per cent increase at Wal-Mart stores and a 10.3 per cent increase at the Sam's Club membership warehouses.

David Glass, chief executive, said the company was "excited" about the earnings growth achieved in the first half of the year, but spoke of "tempering" enthusiasm for the second half "purely because we face strong comparisons resulting from last year's solid performance."

However, Mr Glass said the company expected third-quarter results to be in line with, or slightly better, than analysts' expectations. Analysts surveyed by the First Call research service are predicting third-quarter earnings per share of 41 cents.

Operating profits in the Wal-Mart stores division rose 27 per cent to $1.8bn in the second quarter, while in the Sam's Club division, they rose by 19 per cent to $173m.

In the international division, which now comprises Wal-Mart's recently acquired German operations as well as those in Argentina, Brazil, Canada, China, Korea, Mexico and Puerto Rico, operating profits rose from $27m to $124m.

Textron plans European buys

By John Authers in New York

Textron, the US industrial and finance company, is planning an aggressive acquisitions campaign in Europe, using the proceeds of the $3.9bn sale of its Avco Financial Services unit to Associates First Capital, announced yesterday.

Avco specialises in consumer lending, and the sale completed Textron's exit from the retail financial services business in the US. It had also previously held a life assurance company.

The deal will provide Textron with after-tax proceeds of $2.9bn.

While 40 per cent of this will be used for repurchasing shares, the remainder will be used for acquisitions.

At present, Europe accounts for 17 per cent of Textron's total annual revenues, and it aims to increase this to 40 per cent within three years. The company added that it was also interested in exploring opportunities for cheap purchases in Asia, where it does not have as significant a presence.

Any acquisitions will probably be "bolt-ons" to its existing industrial, aircraft and automotive businesses, which include Cessna aircraft and Bell helicopters. It also has an industrial financing business.

It will aim to retain a broad portfolio of businesses so that it avoids reliance on specific industries with long product cycles.

Associates First is one of the largest US consumer finance companies and was spun off from Ford earlier this year.

The acquisition gives it a retail presence in several new markets outside the US, including Australia, New Zealand, Hong Kong and India, and continues its own aggressive acquisitions campaign.

The deal, which will take about six months to complete, will leave The Associates with a loan portfolio of about $72bn.

The deal priced Avco at 3.3 times book value, roughly the norm for retail financial services deals in the last year.

Textron was jointly advised by Goldman Sachs and J.P. Morgan.

Brewers break off alliance

By Raymond Colitt in Caracas

Belgium's Interbrew and Venezuela's Cisneros group have ended a strategic alliance that aimed to conquer a 15 per cent share of the Latin American beer market, an official close to Cisneros said yesterday.

"There were different views on how to develop the market," the official said, insisting that the separation was "on friendly terms".

The alliance, formed last November, was to have invested $2bn over five years to penetrate the Latin American beer market – one of the world's fastest growing, with an expected annual growth rate of 5 per cent.

The two companies had celebrated the link-up as a unique marketing approach to promote local rather than global brands.

Regional, the Cisneros Group's Venezuelan brewer that was to have been the springboard for the alliance, claims it has met its growth target and increased its market share in Venezuela from 8 per cent to 17 per cent over the past 10 months.

HEALTHCARE COMBINED ANGLO-NORWEGIAN GROUP SEES 8% INTERIM RISE AS PRODUCT MIX IMPROVES

Merger savings help lift Nycomed Amersham

By Valeria Skold in Oslo

Nycomed Amersham, the Anglo-Norwegian diagnostic imaging and biotechnology company, yesterday reported an 8 per cent rise in first-half pre-tax profits to £114m ($188.1m), driven by a combination of merger savings and an improved product mix.

The company realised total cost savings of £9m in the six months to June 30 from the effects of last year's merger. Combined with strong growth in its imaging products, the company's largest business unit, this helped raise operating profit by 7 per cent to £127.8m compared with a pro forma £119.6m last time.

Sales fell to £667.9m (£684m) because of weakness in the US market.

The company's life science business, Amersham Pharmacia Biotech, lifted its sales by 0.9 per cent to £197.1m.

Pharma, the pharmaceuticals business, showed a 0.6 per cent increase in operating profits to £17.1m, reflecting a one-off profit from a disposal. Bill Castell, chief executive, said Pharma had not maintained the momentum of the past few years because of uncertainties in the former Soviet Union and investments in new product launches.

"The company did a little bit better than market consensus," said Bruce Diesen, analyst at DnB Markets in Oslo. "The imaging division did better than expected as people were talking about price pressures in the US on its imaging products. But it has come out with new products."

Mr Castell said the company saw turnover in two of its newer imaging products, iodine seeds and Myoview, replacing Omnipaque as the main revenue contributor.

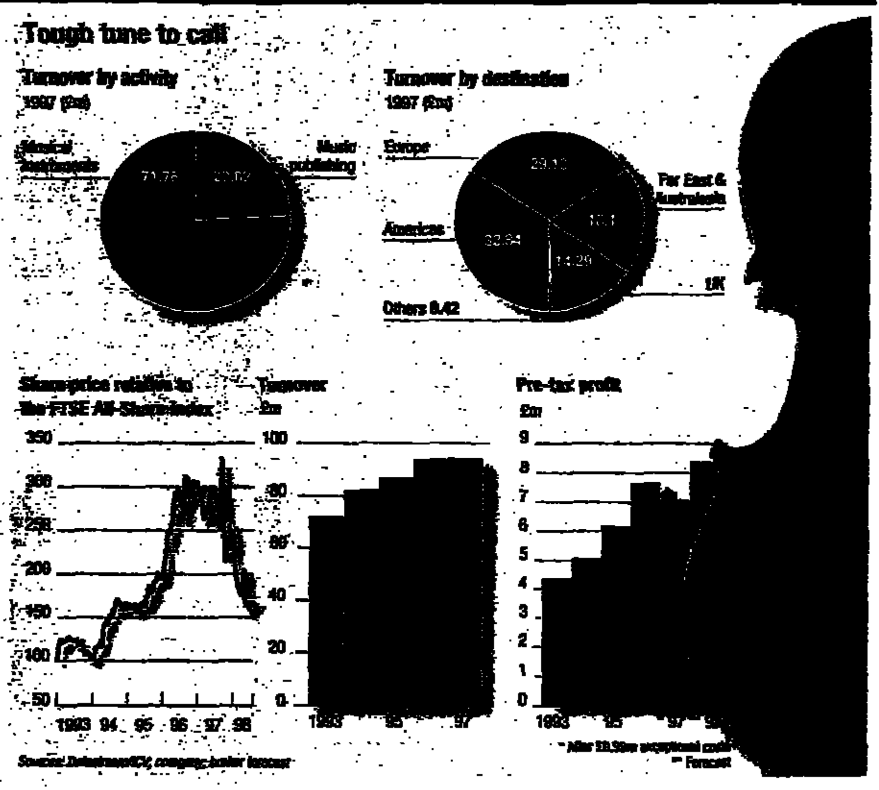
Myoview, a heart imaging agent, is expected to reach sales of £50m next year, as would sales of the iodine seeds used in the treatment of prostrate cancer, said Flemming Thorup, Nycomed Amersham Imaging senior-vice president.

Myoview had sales of of £19.7m in the first half and iodine seeds reached £18.7m. Omnipaque accounted for £78m in turnover at the imaging business from a total turnover £115.8m at the X-ray contract media business.

A dividend of 1.8p was declared, payable out of earnings per share of 10.4p (9.5p). The shares fell 7½p to 395p

Boosey & Hawkes looks to sustain those high notes

Christopher Swann finds the market looking for signs of strong sales growth



The diamond tip of a computerised engraving machine etches the Besson brand on to a trumpet at the Boosey and Hawkes factory in Edgware, north London. Efficiency gains from adopting such specialist engineering equipment helped make the instrument maker and music publisher a star performer on the UK stock market in the early 1990s. However, having recently survived the threat of sale or break-up, Boosey may now struggle to justify its generous p/e ratio of 20.5.

Richard Holland, the chief executive who nursed the company back to health in the 1980s, is adamant that the upside of the business is far from exhausted. Tried and tested strategies hold the key, he says. Yet it is difficult to see where significant growth will come from in the short term.

First, the company, Europe's largest musical instrument maker, must overcome the legacy of a year of uncertainty which ended only in May. The shadow was cast by the protracted change in ownership of its largest shareholder, the US publisher Carl Fischer.

In spite of interest from EMI and Sony, attracted in part by Boosey's unrivalled catalogue of 20th century compositions, its managers succeeded in arranging for the shares to be placed with institutions, restoring Boosey's independence.

However, in the intervening period the strength of sterling and turmoil in Asia were taking the shine off the company's strong growth.

Mr Holland accepts there is ground to make up. "Between negotiating with a line-up of trade buyers, dealing with advisers and devising our own scheme, we inevitably had less time to run and develop the business," says Mr Holland. Precious acquisition opportunities slipped through Boosey's fingers.

Despite this, pre-tax profits for 1997 increased 14 per cent to £8.1m ($13.4m) on turnover of £94.8m – well below the 20 per cent compound growth average achieved between 1989 and 1996. Merrill Lynch, company brokers, expect this to slow to 5 per cent this year.

Most of the group's profit growth has come from margin improvement rather than sales growth. As instrument craftsmen have been supplemented by machine tools, operating margins have risen from 5 per cent in 1993 to 11 per cent in 1997. But sales have risen by a less spectacular 35 per cent.

Mr Holland is determined that the increasing use of machines, tools and techniques poached from the engineering sector, as well as price increases, can continue this process. "But at 11 per cent the ceiling cannot be far away," says Roger Hardman of Hardman and Co, the equity analysts. "If the company cannot get forward motion on sales it will run out of growth."

Worldwide, demand for musical instruments is growing, but slowly. In Asia, home to Boosey's principal manufacturing competitor, Yamaha of Japan, it is more feeble still. Demand is growing fastest in the US. But a strong pound and a weak yen makes Boosey's task a tough one.

Yet over the past five years Boosey has lifted US sales by 20 per cent a year – taking its share of the instrument market there from 2 to 6 per cent. Boosey's strong portfolio of instrument brands commands half the European market for some of its products and gives a strong platform for growth. However, this is a long-term prospect and may only mask a decline in east Asia – where the group made a loss last year.

A resolution of the Fischer issue enables Boosey to resume its search for acquisitions. Rivals are largely small and family owned. Independence may matter more than profit to many.

Nor can the publishing division be expected to inject much dynamism. The annuity-like income derived from Boosey's collection – which hosts the works of Rakhmaninov, Elgar and Stravinsky – will grow, but at a pedestrian rate. Royalty income from CD sales, providing a quarter of publishing revenue, is declining as consumers complete the process of converting vinyl collections. True, Boosey managed to engineer the success of Gorecki's Third Symphony, which topped the classical charts. It has also signed up many promising composers. But a sanguine acceptance that, despite skilful promotion, many new signings will not make much money until after their death is indicative of the long-term nature of the business.

Despite the energy and skill of Boosey's management, therefore, a return to the heady growth rates of the early 1990s seems a distant prospect.

Offshore moves forced on S&N

By Jenny Luesby

Smith & Nephew, Europe's largest medical equipment company, yesterday said the strength of sterling had forced it to move 10 per cent of its UK manufacturing operation overseas.

Mr Chris O'Donnell, chief executive, said the relocations – mainly to France, but also to South Africa and Indonesia – had seen the company run down its UK workforce by between 2 and 3 per cent in each of the past two years.

Smith & Nephew highlighted its moves out of the UK as it unveiled a first-half decline in pre-tax profits of 11 per cent, to £71.9m ($119m), on sales down 1.5 per cent at £516.9m.

Adverse currency movements had cut first-half profits by £9m and were likely to knock £15m from full-year earnings, the group said.

Unlike the textile and clothing industry, which has also been moving out of the UK, Smith & Nephew is a high-technology manufacturer. "If it had not been for the strength of sterling, this production could and would have been happening in the UK," Mr O'Donnell said.

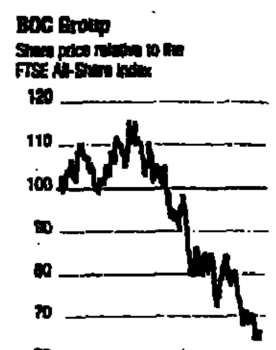
The group had also suffered what it described as "a very significant setback" in the first half, with the failure to secure US regulatory approval for its first biotechnology product, Dermagraft.

The US Food and Drug Administration said it needed more information than had been collected in the first round of clinical trials. The combination of new clinical trials and adverse currency movements had cut the group's operating profit margins from 17.5 to 15.9 per cent over the last year.

As a result, Smith & Nephew's primary focus had shifted away from achieving growth through blue-sky technologies. It was now concentrating on improving its profitability, said Mr O'Donnell.

COMMENT

BOC



BOC's restructuring was expressed in grandiose language, but the reality looked more prosaic. The plans include a big job-shedding exercise, which accounts for nearly half BOC's chunky £267m restructuring charge. There is also a mystery £94m goodwill write-down – breakdown undisclosed. Staff cuts should probably save around £90m, so hitting the target of annual savings of £120m in two years looks achievable once IT benefits and disposals of poorly-performing businesses are thrown in. Even assuming some savings are handed to customers through lower prices, the shake-up should still get the group to its 16 per cent margin target and yield a return on assets that clears BOC's cost of capital – at last. But BOC's rivals are not standing still. Most are already implementing the changes BOC is grappling with, like making its businesses more customer-focused and benchmarking products internationally. It would be a shame, therefore, if BOC stopped here. And for investors to overcome their current distaste for all things chemical, BOC will need to woo them with a share buy-back. After all, it netted £640m for its healthcare business earlier this year and seems reluctant to spend it on acquisitions.

National Power

Senior management at National Power cannot be sleeping easy in their beds these days, as rumours circulate of a consortium-led £7bn bid for the company.

But it is hard to see how the deal could create value at the 600p level – valuing National Power at £7.3bn – as most break-up valuations suggest a price considerably lower. That assumes a generous valuation of National Power's international business of say £2.2bn or 1.5 times book value. Throw in £4.7bn for National Power's generating assets and £650m for its lease income on other plants, subtract debt of £1.2bn and the break-up value is 520p a share. Of course, some bidders, such as a regional electricity company, may feel they can create value through vertical integration.

A second issue also raises problems: the government is keen for the company to shed assets. A bid at this stage could disrupt negotiations. On the other hand, it could be a useful gun to National Power's head.

Diageo fends off shareholders

By Robert Wright

Two leading shareholders in Diageo voted against the food and drinks company's executive incentive scheme at yesterday's annual meeting.

The long-term incentive scheme could result in three top US-based executives being awarded bonuses of 450 per cent of their annual salary.

That could see Paul Walsh, head of the Pillsbury food division, receive £2.65m ($4.3m) of shares, Jack Keenan, head of United Distillers, £2.3m, and Dennis Malamatinas, head of Burger King, £2.1m.

UK-based directors would be in line for more modest bonuses.

The scheme applies to the top 1,000 executives worldwide. It requires Diageo to improve its total shareholder return against a group of 19 other global consumer companies but proved controversial because some shareholders, led by Standard Life, suggested the criteria were not sufficiently demanding.

The company said that, of 1.86bn shares voted on the scheme, 1.66bn were in favour and 200m against.

The votes were 89 to 11 per cent in favour of adopting the scheme.

The company declined to name the two institutions whose votes were cast against, but both Standard Life and Norwich Union were known to oppose the scheme.

The incentive scheme runs from 1998-2000 and will pay out in March 2001.

The three US executives will receive shares equal to 450 per cent of salary if Diageo is in the top three of the league table of consumer companies, 300 per cent if it is in the top five, and 100 per cent if it is in the top 10.

The maximum pay-out for UK-based executives will be 150 per cent of salary, dropping to 50 per cent of salary for a top 10 rating.

Sedgwick insures against mis-selling

By Jim Kelly

Sedgwick, the insurance broking group, said yesterday that it had designed an insurance product to help cap the liabilities it faces from the government's review of pension mis-selling.

Sedgwick said it was making an exceptional charge of £80m ($132m), its worst case scenario, to meet claims over pension transfers – but now had insurance cover for a further £37m and an option on £25m more.

The shares closed 2p up at 158p.

Sax Riley, chairman, said the model product had been placed with insurance companies in London and Bermuda.

"We have put together the biggest belt and braces we could find," said Mr Riley.

The provision was announced along with second quarter results which showed profit before tax and exceptional items of £60.1m (£66.3m).

Pre-tax losses for the six months to June 30, including a total exceptional charge of £77m, were £16.9m (£66.5m profits). Losses per share were 1.3p (8.4p earnings). The interim dividend was held at 3p. Sedgwick expected a strong last quarter, said Mr Riley.

Charles Landa at SG Securities said: "They've been very sensible. Analysts expected that the £35m provision they had indicated earlier would be inadequate, and this is an innovative solution to the problem. The results generally are encouraging given the appalling trading conditions."

Kingfisher plays waiting game

Kingfisher's terse statement yesterday that it did not envisage an offer for Castorama, the leading DIY chain in France, smacks more of diplomacy than reality.

The group took six years to get its hands on Darty, the number one French electrical retailer, and a further two years to build a controlling stake in another big operator.

In both cases, the UK retail conglomerate, which owns B&Q, Comet and Woolworths, held talks about strategic alliances long before it clinched any deals.

Kingfisher has had on/off talks with the family-controlled Castorama group for several years. The most recent began just a couple of weeks ago and the companies' statements admitted only to discussions about "the commercial benefits of working together".

But it is clear that the talks will examine everything from joint buying to international joint ventures and even a takeover by Kingfisher.

Sir Geoffrey Mulcahy, Kingfisher's chief executive, is prepared to play the long game. He had to live with years of criticism for his decision to buy Darty in 1993 at what was considered to be a full price of £560m, just before the French economy went into a dive.

Yet the business is now benefiting from an economic upturn and looks to have been a canny purchase.

Kingfisher could repeat the exercise if it manages to get Castorama to agree to a merger, although it will have to win over the Du Bois family, which has a voting majority.

The business is considered by analysts to be a class act, in spite of a tough three years that have seen it suffer falling profits at home while trying to expand abroad.

Keith Wills, retail analyst of Goldman Sachs, said: "The market position of Castorama in French DIY is probably the strongest of all market leaders across the major European countries."

The French home improvement market is beginning to pick up after a long stagnation. However, the problem for Castorama is simply that its returns are too low for a business with its strong market position. Emma Burdett, retail analyst at ABN Amro, forecasts that Castorama will return net margins of barely 3 per cent this year.

Part of the difficulty is that the French group sources many of its products in local markets. B&Q, on the other hand, has improved margins by sourcing internationally. Obviously, the benefits could be even greater if the two could buy jointly, say analysts.

It will not be easy. DIY remains a notoriously local market. Nevertheless, there are areas such as paint and timber, said Nick Hawkins, retail analyst at Merrill Lynch, where combined buying could bring benefits.

Castorama and its family shareholders might only agree to participate in joint buying, which gives them the benefits and allows them to retain control.

But Sir Geoff will be betting that even such a watered-down arrangement will bring success, said one retail analyst. "They will work together, learn to trust each other and at some stage all family shareholders always sell out, don't they?"

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RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
BOC	9 mths to June 30	2,746	(2,918)	272.4♠	(325.4)	32.7	(42.73)	-	-	-	-	29
Broadcastle	6 mths to June 30	-	(-)	1.67	(0.996)	1.85	(2.06)	1	Oct 1	0.9	-	2
Bourne End Props	6 mths to June 30	7.74■	(7.6■)	0.259♠	(0.226)	0.29	(0.21)	0.55	Apr 6	0.55	-	1.2
Cantab Pharms	6 mths to June 30	2.1	(6.04)	2.86L	(1.97)	0.07L	(0.05*)	-	-	-	-	-
Epwin	6 mths to June 27	50.5	(43.6)	2.61	(2.32)	7.9	(6.9)	3.3	Oct 12	3.15	-	9.85
Hall Eng	6 mths to June 30★	138.4	(122.7)	7.21♥	(9.39♥)	11.88†	(14.29)	3.775大	Sept 18	3.775大	-	10.4大大
Headlam	6 mths to June 30	160.7	(116.4)	8.86	(6.81)	9†	(7.4)	2.1	Dec 22	1.75	-	7.05
Highland Timber Φ	6 mths to June 30	0.023	(0.285)	0.138L	(0.033L)	-	(-)	-	-	-	-	-
Memory Corp Φ	6 mths to June 30	10.2	(2.81)	1.22L	(1.19L)	1.49L†	(1.87L)	-	-	-	-	-
Millennium C'Shorse	6 mths to June 30	104.7	(95.3)	24.3	(19.9)	12.2	(10.3)	3.3	Oct 1	2.8	-	8.6
Milner Estates	Yr to May 31	40	(29.3)	9.97♠	(9.2)	28.9†	(18.4)	3.927♦	Oct 29	5.61	5.313	7.59
Nycomed A'sham	6 mths to June 30※	572.6	(684)	114	(105.5)	10.4	(9.5)	1.8大	Nov 2	-	-	3.4大#
Quantica	6 mths to May 31※	6.87	(-)	1.87	(-)	3.41	(-)	-	-	-	-	-
Rea Brothers	6 mths to June 30	-	(-)	1.81	(1.41)	2.62	(1.96)	0.66大	Oct 1	0.6大	-	1.25大
Sanderson Bramall	6 mths to June 30	424.1	(318.9)	8.02	(6.73)	15.15†	(13.25)	2.12	Nov 2	1.84	-	5.52
Sedgwick	6 mths to June 30	492.6	(485)	16.9♠	(66.5)	1.3L	(8.4)	3大	Oct 19	3大	-	7大
Smith & Nephew	6 mths to June 27	516.9	(524.8)	71.9	(81.1)	4.52	(5.42)	2.4	Dec 9	2.4大	-	6.2大

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Mercury Grosvenor	6 mths to June 30	298.2	(247.7)	0.158♠	(0.807)	0.61	(3.11)	-	-	-	-	4.95

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. *After adjustment for share split. ■Rental income. ★ Comparatives restated. 大Foreign income dividend. 大大Includes FID element. ΦAim stock. ♦Enhanced scrip available. ※Pro forma. ※Comparatives pro forma. #For nine months to December 31 and after adjustment for share split and scrip issue.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Pool for Trading on 12.08.98 / Final Pools for Trading on 15.07.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TB use of system price £/MWh
0030	13.24	9.48	9.48	0.00
0100	4.25	9.40	9.40	0.00
0130	4.25	9.38	9.38	0.00
0200	4.25	9.38	9.38	0.00
0230	4.25	9.38	9.38	0.00
0300	4.25	9.38	9.38	0.00
0330	4.25	9.38	9.38	0.00
0400	4.25	9.38	9.38	0.00
0430	4.25	9.38	9.38	0.00
0500	4.25	9.36	9.36	0.00
0530	7.60	9.32	9.32	0.00
0600	7.80	9.32	9.32	0.00
0630	9.35	9.35	9.35	0.00
0700	10.60	9.43	9.43	0.00
0730	12.57	11.80	11.79	1.29
0800	13.01	13.02	12.92	1.29
0830	14.04	16.96	16.97	1.29
0900	14.44	17.94	18.16	1.29
0930	14.66	29.98	30.65	1.29
1000	16.17	30.78	31.72	1.29
1030	21.52	31.26	32.41	1.29
1100	21.60	31.96	33.34	1.29
1130	21.90	32.81	34.43	1.29
1200	48.11	33.32	35.07	1.29
1230	48.05	32.58	34.11	1.29
1300	47.89	31.60	32.73	1.29
1330	21.57	26.94	26.75	1.29
1400	21.50	25.04	25.56	1.29
1430	27.19	17.47	17.80	1.29
1500	27.17	17.19	17.40	1.29
1530	27.15	17.06	17.91	1.29
1600	27.18	17.74	18.21	1.29
1630	27.23	18.89	19.49	1.29
1700	27.24	26.54	27.48	1.29
1730	21.45	25.81	26.49	1.29
1800	14.52	17.89	17.85	1.29
1830	14.03	16.71	16.64	1.29
1900	13.77	15.92	15.85	1.29
1930	13.53	15.97	15.89	1.29
2000	16.59	20.89	20.74	1.29
2030	9.41	9.45	9.45	0.00
2100	16.59	9.43	9.43	0.00
2130	62.39	20.88	20.74	1.29
2200	62.39	23.92	23.78	1.29
2230	17.10	23.92	23.76	1.29
2300	17.10	23.92	23.77	1.29
2330	17.10	17.00	16.85	1.29
2400	13.13	15.17	15.03	1.29

Prices are determined for every half-hour on each [illegible]

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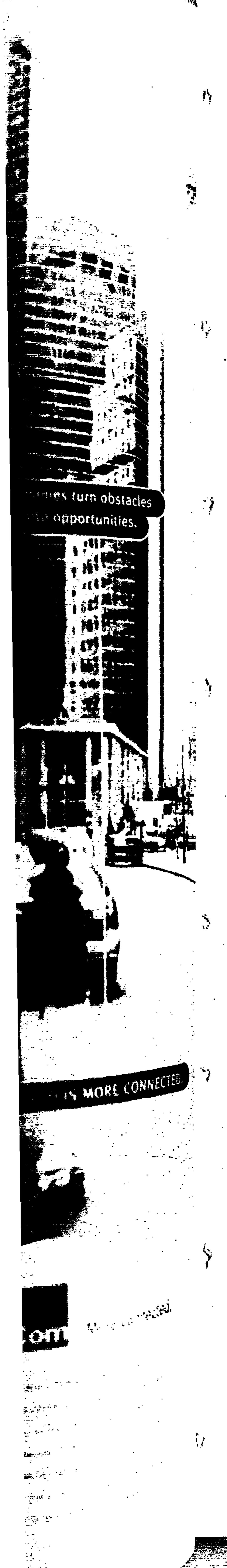


Combination catapults partners into top league

The BP-Amoco combination creates the world's third-biggest petrochemicals group and second-largest oil and gas producer, and promises a refining capacity to challenge the leaders

By Virginia Marsh and agencies

Yesterday's deal propels BP and Amoco from what Sir John Browne, BP's chief executive, described as being at the "top of the second division" into the super league previously inhabited by Royal Dutch/Shell, the Anglo-Dutch group, and Exxon of the US.

The new group, to be headquartered in the UK and run by a board dominated 13 to nine by BP, will become one of the world's top three groups in terms of oil and gas production, reserves and refining capacity.

It will also become the world's third-largest petrochemicals business after Shell and BASF of Germany.

In oil and gas, again after Shell, it will become the world's second-largest oil and gas producer with 2.9m barrels of oil equivalent a day, and the second-biggest in terms of reserves with 14.8bn boe compared with the Anglo-Dutch group's 19bn.

In refining, the deal will give it capacity close to Exxon's at about 2.9bn barrels a day although it will still be some way behind Shell on 4.46bn.

However, for both Larry Fuller of Amoco, who is set to be come co-chairman of the enlarged group, and Sir John, the deal was not the end game. "We're not going to settle for an easy third place," Sir John said.

He claimed the extra financial muscle of the combined company, and the cost savings it would reap would make its products cheaper for customers.

He also pledged more choice for consumers, although the tie-up is unlikely to mean motorists paying less for their petrol.

By the end of the 2000 – the companies say they hope to close the deal this year – the aim is to cut annual costs by at least $2bn at the pre-tax earnings level and they hope considerable further synergies will emerge once the merged group settles down to business.

Of the initial $2bn, some $1.25bn will come from organisational and operational rationalisation including about 6,000 redundancies, some 6 per cent of the combined workforce. A further $300m will be saved on more focused exploration while better buying will cut annual procurement costs by $250m.

Most of the job cuts will be in the US, but the company admitted there would be some scaling back of its 17,000-strong UK workforce.

Sir John, who is in line to head up the new company, said it was too early to say how many UK staff could lose their jobs.

"It remains to be seen what that number is, but it will be small," he said.

BP, which will dominate the new group, has a far bigger structure in the UK than Amoco, which has about 1,200 staff in thew UK.

Larry Fuller added that there was very little overlap between the two companies' operations in Scotland, where the UK oil industry has a big presence.

The deal helps overcome what analysts had perceived as one of BP's greatest weaknesses – its relatively weak position in gas, a sector harder to break into quickly than oil. In contrast, Amoco – whose gas business is four times the size of BP's – has managed to lever off its gas expertise and position in its home US market to build up a strong global gas business.

In the US, the Amoco brand will be extended over time to BP's retail gasoline and convenience store outlets but the BP brand will be used in the rest of the world. The US, where the group will be the largest oil and gas producer, will also be the centre for BP Amoco's exploration and production operations.

In petrochemicals, BP nologies.

While BP has recently stepped up its activities in the former Soviet Union – like Amoco it is heavily involved in Azerbaijan's Caspian Sea territories – and has a raft of projects in other

For Larry Fuller of Amoco, who is set to be co-chairman of the enlarged group, and Sir John Browne of BP, yesterday's deal was not the end game. 'We're not going to settle for an easy third place,' said Sir John.

Amoco will have a leading position in seven core products including acetic acid, acrylonitrile and aromatics and will also have several important proprietary tech-

emerging markets, the group will be more focused on the western world than its larger peers.

Of the top three groups it will be the only one with more than 70 per cent of its assets in the OECD countries and some 80 per cent of profits generated in the US and Europe.

Yesterday's merger announcement came as oil prices hit a 10-year low, highlighting the problems currently being faced by the industry. Too much oil is being produced to meet demand, which has fallen in part through the Asian economic meltdown.

Sir John said: "International competition in the industry is already fierce and will grow more acute as new players emerge.

"In such a climate the best investment opportunities will go increasingly to companies that have the size and financial strength to take on those large-scale projects that offer a truly distinctive return."

EUROPEAN INVASION

Buying spree across Atlantic

By Richard Waters in New York

The push by some of Europe's biggest companies into the US has just claimed its latest, and biggest, target. And if the appetite for foreign securities on which this new wave of acquisitions has been launched survives the present wobble in world stock markets, US experts predict that the drive is set to continue.

BP's purchase of the fifth largest of the integrated US energy groups comes hot on the heels of Daimler Benz's agreement to buy Chrysler, the smallest of the Big Three auto groups. Had it not tried to renegotiate the price, a move that opened the door to a higher bid from WorldCom, British Telecommunications would also have carried off MCI Communications, the second-largest long-distance carrier.

Other prime corporate assets to be snapped up for stock in recent months include Alcatel's all-share acquisition of DSC, a leading maker of data networking equipment.

Helping to fuel these purchases has been the surge – until recent days, at least – in European stock markets. This has provided a more powerful takeover currency in the form of ADRs, a dollar-based security tied to the parent company's shares.

By using such stock, the Europeans have been able to benefit from the two big advantages enjoyed by US companies contemplating a domestic merger. One is the deferral of capital gains taxes that comes with an all-stock deal: a purchase for cash would have led to an immediate crystallisation of gains for tax purposes.

The other involves the use of so-called pooling of interest accounting – known in the UK as merger accounting – which allows two companies to combine without creating any goodwill.

Despite these benefits, however, the more widespread use of ADRs may run into some resistance.

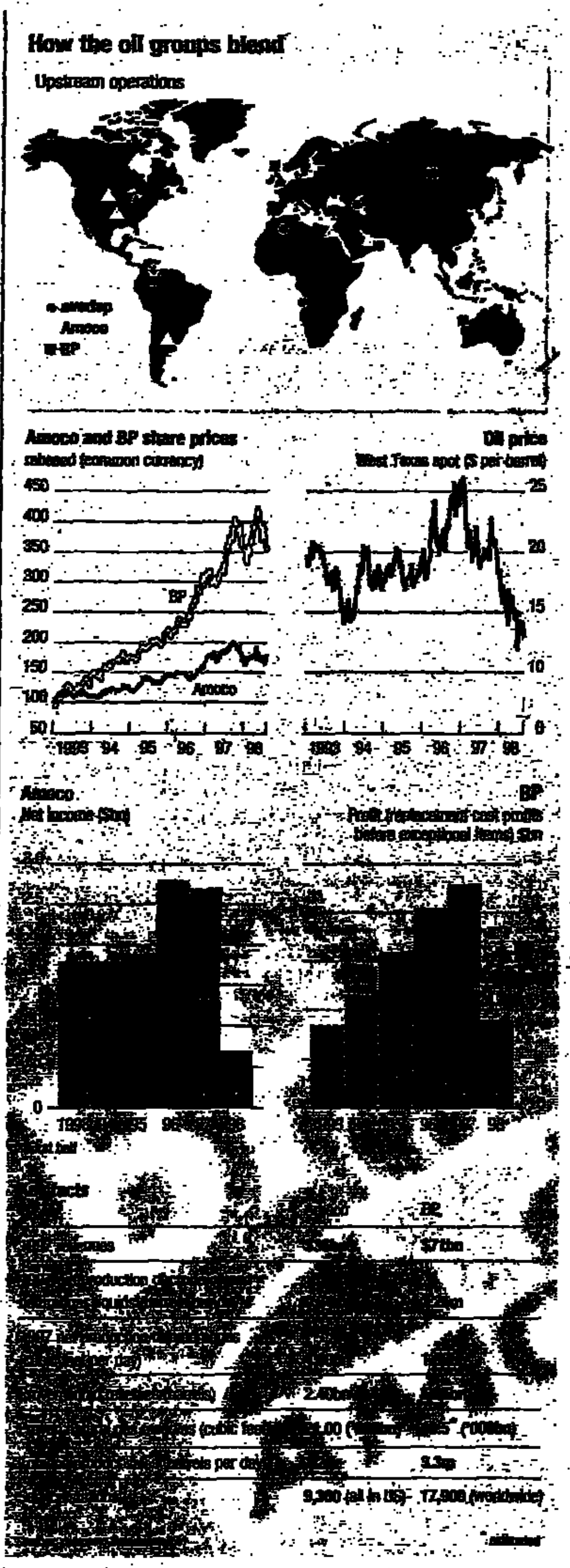
"There are some institutional investors in the US for whom holding ADRs would fall outside their investment criteria," conceded Rod Peacock, head of J.P. Morgan's global energy group.

BP is likely to face fewer problems in this regard than Daimler Benz. "BP is already actively traded here, and Amoco will only increase the liquidity [of the stock]," said Ken Lopian, head of the ADR group at Bank of New York, one of the largest sponsors of ADR programmes.

The UK company also pays its dividends quarterly – a US custom, rather than a UK one, where dividends are paid twice a year – and promised yesterday to produce its main accounts in US currency rather than sterling.

Daimler Benz, by contrast, plans to issue a new dollar-based security directly, rather than using the depositary arrangements that are normally followed by foreign issuers in the US.

The US and UK methods of taxing dividends are likely to represent the main difference for Amoco shareholders after an acquisition by BP, said Mr Lopian at Bank of New York. In the US, dividends are paid gross, while UK companies are required to withhold tax, which can be used by investors to offset their own taxes.



ADRs US INVESTORS WARM TO ALL-STOCK DEALS BY OVERSEAS GROUPS

European buyers join the paper round

By Jane Martinson and George Graham

The ability to pay for a cross-border acquisition with paper, rather than cash, has opened up the frontiers for companies considering overseas deals.

The merger between BP and Amoco is the third large industrial combination in recent months in which a European company has used paper to acquire a US company.

Like France's Alcatel in its takeover of DSC Communications, a US telecoms equipment company, BP will issue American Depositary Receipts – certificates issued by a US custodian bank and representing foreign shares. Daimler initially contemplated the issue of ADRs in its merger with Chrysler but is now proposing a new variant – Global Registered Shares listed in both Frankfurt and New York.

Investment bankers said yesterday that this form of financing still raised difficulties, but that investors were increasingly ready to accept a foreign issuer's paper.

"ADRs have become increasingly accepted in share exchange transactions involving US companies," said Rod Peacock, who led the team from J.P. Morgan which advised BP on the deal. "It was a mantra of prior years that you couldn't do cross-border deals with paper, but people have become very comfortable with the idea."

Other leading investment bankers said cross-border deals of this type were likely to become more common, especially in sectors such as oil, where companies needed a global reach.

"The oil, telecoms and drugs industries are all global businesses and I think you will find a greater investor interest from investors in multinational global combinations of this type," said one banker not involved in the deal.

ADRs make it much easier to encourage US shareholders to accept shares in European companies. They are easier to market to all US investors, some of which are constrained through trust deeds for example, from investing in non-dollar securities while others need to match exactly the currencies in which their assets and liabilities are denominated.

The depositary receipt system is not available in most of Europe, so US acquirers cannot easily use the same technique to pay for a European acquisition. "European shareholders have to like US shares or lump them," said one banker.

But offering ADRs to US investors is not without its problems. Corporate financiers close to the deal acknowledged that there could be some initial turbulence in the combined group's share price. US fund managers whose mandate is to track the S&P500 index will have to sell, because Amoco will drop out of the index unless it can persuade Standard & Poor's to keep it in; while UK institutions will need to buy more BP shares to keep their holdings in line with the enlarged company's weight in the UK's FTSE 100 index. This will make it difficult to keep a total 40 per cent US holding in the combined group even though around 30 per cent of BP is held by US investors.

Besides J.P. Morgan, Merrill Lynch and Cazenove & Co were corporate brokers to BP on the deal. Amoco was advised by Morgan Stanley.

Investment bankers said the impetus for the deal came from the two managements, who have known each other professionally for years. BP executives said they had known Amoco's top management for 30 years, and known them well for 15.

"In an industry with only five large participants, you don't need to have bright ideas to come up with possible combinations. Who picked up the phone first? You can't tell," said one banker close to the deal.

CONSOLIDATION SHIFT IN SHARE OF REFINING AND DISTRIBUTION MAY ATTRACT ANTI-TRUST SCRUTINY

Regulators may look downstream

By Richard Waters in New York

Coming hard on the heels of a three-way merger in the US refining and marketing industry earlier this year, the union of Amoco and BP looks set to accelerate the consolidation of the downstream business in North America, according to oil industry experts.

However, given the growing concentration of market power that is already under way, this is also likely to be the aspect of the combination that draws the most active regulatory scrutiny – a fact that the companies themselves conceded yesterday.

The highly fragmented business of refining and distributing petroleum products in the US saw its first big consolidation earlier this year, with the completion of a deal which brought together the downstream activities of Texaco, Shell and Saudi Aramco. That combination left the companies with about 13 per cent of US retail sales of gasoline, according to figures provided by Amoco and BP.

That relatively small national market share disguises more pronounced regional strengths, however. With its activities concentrated in the western states, the three-way union has stolen a march on its far smaller regional competitors, according to industry analysts. "The industry overall has had to react to these changes," said Rod Peacock at J.P. Morgan, which advised both Aramco and BP on their deals.

In the same way that that deal created a new giant in the downstream business in the west, the combination of Amoco and BP will produce a clear leader in many parts of the Midwest and the eastern US.

According to the two companies, their combined operations, accounting for 14 per cent of retail gasoline sales nationally, will make them one of the two biggest in their industry in 30 of the 35 states in which they operate.

"Generally speaking, the combinations of Shell and Texaco and BP and Amoco will result in the largest players in the regions in which they operate," said Scott Setrakian, head of energy consulting at Mercer, a management consulting firm. That is likely to put more pressure on other big integrated companies, such as Chevron, Mobil and Exxon. "They are all becoming relatively much smaller," he said.

Exxon and Mobil each have an estimated 7 per cent of the US market for gasoline sales. That gives them less scope for the sort of cost savings that could help to relieve some of the pressure that has been felt on downstream profit margins during the 1990s. Texaco and Shell, for instance, said they expected savings of $2bn from their deal.

The greater concentration, however, is also likely to attract the attention of antitrust regulators. That echoes the experience of Texaco and Shell, which had to make concessions to win approval for their own transactions. The two companies agreed to sell a refinery based in Washington state, as well as marketing operations in San Diego and Hawaii, in order to meet regulatory concerns.

Similar concerns were likely to be focused on the Midwest operations of Amoco and BP, said John Lichtblau, chairman of the Petroleum Industry Research Foundation, an industry think-tank. But while analysts said this might lead to some asset disposals, these were likely to be relatively minor.

The fact that the profitability of most refineries remained low – despite some improvement in recent months, – also lessened the danger that antitrust regulators would force the two companies to shed assets to stimulate more competition, added Mr Lichtblau.

The knight with a vision of a wider realm

By Robert Corzine and Virginia Marsh

In the past year some analysts have wondered when Sir John Browne would become bored with running BP, a "company he could manage with one hand tied behind his back," according to one former executive.

Yesterday's announcement of the world's biggest industrial merger suggests it may be some time before he will be tempted to more lofty challenges.

An engineer by training, Sir John, who turned 50 this year, has emerged as one of the UK's best business leaders. Although he has only been chief executive of BP for three years, the group's recent prosperity rests in large part on strategies he developed earlier in the decade as head of exploration.

But is he the right man to run a giant Anglo-American oil group?

In many ways, he appears born to play such a role. He is one of the few UK business leaders who appears at home in the US. He is a graduate of Stanford Business School and sits on its advisory board, one of many activities he manages to pursue outside BP. Sir John is also a trustee of the British Museum and a non-executive director of SmithKline Beecham, the Anglo-American drugs company, and of Intel, the world's largest chipmaker.

Sir John – he was knighted earlier this year – would probably wince at comparisons with Sir Bob Horton, the former BP chairman and chief executive who was forced to resign in 1992 when a debt crisis threatened to engulf the company. But some company observers say he shares with Horton an autocratic outlook. "Sure, he is autocratic," says one colleague, "and in that respect is like Horton, but Browne runs the company in a way that Horton would like to have done but was never capable of doing."

BP executives add that Sir John, unlike some of his predecessors, would also "never do a deal that was not underpinned by commercial logic".

Although not a natural politician, he is said to have cultivated a power base within BP – where he has worked since joining as a graduate trainee from Cambridge University in 1966 – and delegated others to do the politicking for him.

Sir John's main strengths appear to be his grasp of strategy and his ability to pull together all the threads of a complex project or deal. The latter will be a skill much in demand in the future.

In an industry often accused of following its own laws, he is also praised for his vision – his ability to look beyond the sector, place it in a wider context and anticipate the pressures on it.

Notably, he has taken a lead on responding to growing environmental concerns and in accepting climate change as a threat to his industry. He has behaved like something of a prophet, calling on the industry to wake up to the challenges of global warming. Earlier this year, for example, he committed BP to increasing sales of solar energy equipment to $1bn over the next decade from $100m now and called for new taxation, as part of a package of proposals for curbing greenhouse gas emissions, including carbon dioxide from the burning of fossil fuels.

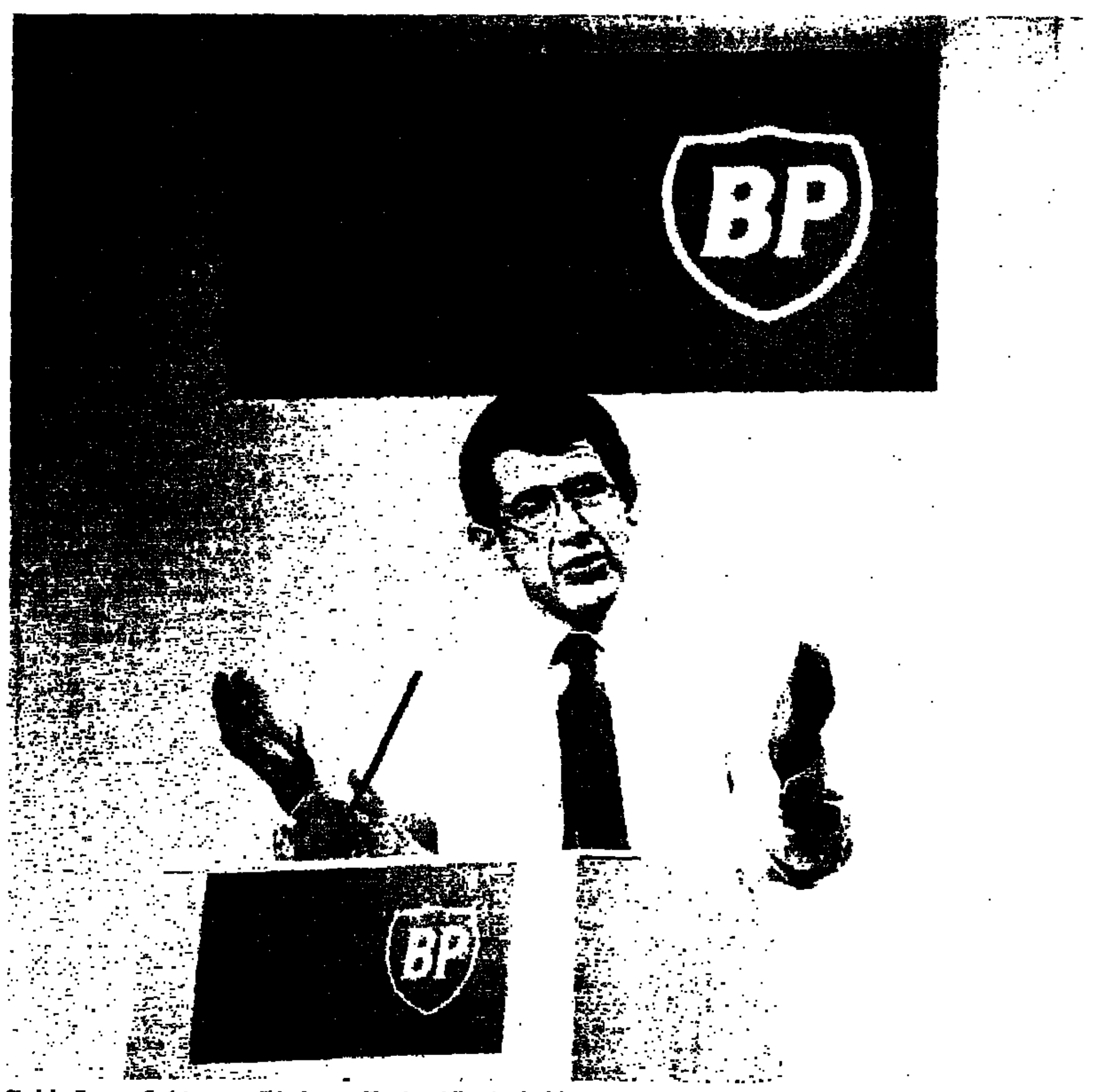
To audiences around the world, from Stanford to a recent FT dinner for business leaders, he has reaffirmed his unconventional belief that up to 5 per cent of world energy supplies could be met by renewable sources by 2020, and that the figure could rise to 50 per cent by 2050.

Yesterday, he took time out in his brief presentation to share his view that while the distinguishing feature of the last 80 years was the increased mobility of the human race, the next century would be marked by the widening range of choice.

As head of a much larger group, Sir John will soon be in a much stronger position to stamp his vision on the industry and take on rivals such as Shell and Exxon.

Yesterday he was typically plain speaking, describing the merger with Amoco as "aggressive" rather than "defensive".

"There are clearly a lot of things that need doing in this industry. In future we will be in a position to set the standards."



Sir John Browne: 'In future we will be in a position to set the standards'

Picture: Sinead Lynch

PROFILE ABDULMAJEED SHOMAN

Patriarch with a mission

The head of Arab Bank has supported the Palestinian diaspora from north Africa to Australia, writes **Roula Khalaf**

The first stop on the road to investment in the Palestinian territories is often the Amman office of Abdulmajeed Shoman.

Enlisting the financial support of the head of the Amman-based Arab Bank group, one of the largest institutions in the Middle East, is considered key to the success of projects and to wooing other investors. Once Mr Shoman is signed on, even with a symbolic stake, other wealthy Palestinians dutifully follow.

As head of a bank that has played a significant part in Palestinian history, the 85-year-old Mr Shoman has naturally assumed the role of patriarch of the Palestinian diaspora. His investments in Palestine are almost all through the bank and are driven as much by emotional attachment as by a fiery ambition to stretch Arab Bank's reach as far as he can.

His father founded the bank in Jerusalem in 1930 and the family still owns about 20 per cent. Even after 60 years with the bank, Mr Shoman still spends his weekends and holidays in the office. Surrounded by a clutter of bank memorabilia and leather panelled bullet-proof walls, he dials dozens of phone numbers to check on his branches around the world.

This network, making up the only truly pan-Arab bank, extends through the Gulf and north Africa and stretches as far as China and Australia. It has followed Arab communities across continents but also opened branches or subsidiaries to help foreign business deal with the Arab world.

Those who know him say Mr Shoman has transferred his yearning for the land he lost in Palestine into a near obsession with building the Arab Bank group, an institution with $17bn in assets. The Arab-Israeli conflict has haunted Arab Bank. It was forced to move its headquarters to Jordan in 1950, two years after the state of Israel was established. "In 1967, when the Israelis took Jerusalem, they took the money from the bank and returned some of it only recently. We closed all our branches then and refused to reopen during the occupation."

Arab Bank became the bank of the Palestinian Liberation Organisation, which is still a depositor. The Shomans – the bank was run by his father until 1974 – became the principal financiers of the Palestinian diaspora, helping merchants restart businesses in exile.

Mr Shoman insists he is not a politician but he has his ideas about peace and has had his quarrels with Yassir Arafat, the Palestinian leader. Opposed to the 1993 Oslo Peace accords between Israelis and Palestinians and the subsequent Jordanian peace deal with Israel, Mr Shoman insists: *"You do not negotiate something that is yours; you fight for it, through every means."*

Still, after Oslo, Arab Bank returned to Palestinian territory to become the biggest bank, with 18 branches. Last year, it also set up the Arab Palestinian Investment bank and is an investor in a group developing hotels and factories and investing in telecommunications.

But as the peace process has faltered, sinking with it the Palestinian economy, it has become harder for Mr Shoman to reconcile his investment objectives with the over-conservative banking style that has characterised Arab Bank since its inception. Inside the territories, Arab Bank is criticised for not lending enough.

The bank's prudent style has earned it a rather dull reputation. As one analyst put it: "The bank will never set the world on fire." But it is one thing Mr Shoman will never sacrifice as, in spite of the region's volatility, the first and only run on the bank dates back to the second world war. "Since then, people take money out of other banks during crisis and deposit it with us," he says.

Mr Shoman joined the bank in 1936, after studying at New York University and doing a stint with what was then Chase National Bank. His father was a demanding man, who had started out as a ladieswear door-to-door salesman in New York. He forced his son to leave law school and study banking.

Mr Shoman seems to have inherited a tough and stubborn personality. He has cut links with his younger son for a marriage he disapproved of and because of a lack of interest in the family bank.

Mr Shoman's only distractions from banking are a taste for fine clothes, a passion for baseball and helping to run the lives of his grandchildren. He personally finances their education.

Mr Shoman's conservative management style has made the bank highly dependent on him but it has also kept the loan book healthy. Although not highly profitable, the bank's return on average assets increased from 0.99 per cent in 1994 to 1.35 per cent last year.

Mr Shoman says he no longer approves every loan, although he has the final say on many important decisions. His brother and his son run the bank on a day-to-day basis and both are the prime candidates to succeed him.

He insists he can be contradicted, as in the bank's recent decision to solicit credit ratings. "I am against it. We don't need it but they decided and I had to go along," he says. "I am not a dictator."

The ratings will raise the profile of the institution, which is quoted on the Amman stock exchange, among foreign investors. The move is part of a global marketing drive to give the bank a younger, more vigorous image to help it attract a new generation of depositors who may be less loyal to Arab Bank than their parents and grandparents.

Foreign involvement in the bank is also a source of anxiety because it might bring in Israeli investors, which Mr Shoman desperately wants to keep at bay. He is said to track closely through Jordanian brokers the buyers of every share, and questions institutional investors about the origin of their funds, bluntly informing them of his disapproval of any Israeli connection.

Family tie: Abdulmajeed Shoman took over from his father. Reuters

Golden opportunity: venture capitalists insisted Stephan Schambach set up an Intershop office in San Francisco

INFORMATION TECHNOLOGY ELECTRONIC COMMERCE

Star from the east

Intershop's progress to become a leading software supplier started in communist east Germany. **Graham Bowley** reports

You might think the brightest innovations in electronic commerce come out of the US, or at a push the UK. Surprisingly, though, the company claiming to be the world's leading supplier of e-commerce software hails from an obscure small town in former communist east Germany.

Intershop was founded in 1992 in Jena in the state of Thuringia. Its early history was intertwined with that of the fledgling reunified German nation: initially, the young company benefited from the boom after the fall of the Berlin Wall.

The founders installed software on new computers in universities, companies and government offices which were bought as budgets were swelled by subsidies from the west. When the boom slowed, they switched to the internet and *hit on the idea of developing* software for companies to display and sell their goods electronically.

After six years the company has moved its headquarters to San Francisco, has just gone public on one of the Frankfurt stock exchanges, and its founders – including its 28-year-old chief executive – have become east Germany's first home-grown millionaires.

"We were in time for the market. We were the first to ship standard e-commerce software before anyone even knew about it," says Karsten Schneider, one of the trio of Intershop's founders who runs the company's programming centre in Jena.

Since then Intershop's products have changed radically. Its first e-commerce software was developed for Computer 2000, a computer hardware wholesaler, which later chose not to use it. This was a setback but it gave Intershop the impetus to attack a wider market by developing standard software which could be used by anyone selling or buying goods and services on the internet.

"They [Computer 2000] thought it would cannibalise their business. So we said let's make this standard, shrink-wrap software and sell it to everybody," says Wilfried Beeck, one of the founders and Intershop's financial officer.

Now, 80 per cent of Intershop's revenues come from customers such as Deutsche Telecom (its biggest single customer), other telecommunications companies and the big internet service providers, who use Intershop software to host and run shopping sites for retailers on the internet.

The telecoms companies *and internet providers* use the software to attract users to the net; Intershop benefits by charging licence fees. Intershop's next generation of software will help businesses buy and sell with other companies, not just shoppers, via the internet.

Such innovation has brought success. With revenues of $5.7m last year, and turnover expected to rise to $20m this year, the company says it commands 10 per cent of the market for e-commerce software – a market it claims will be worth about $1bn by the end of 1999.

In a country where venture capital is rare, Intershop flew in the face of tradition by turning to outside private capital early in its life.

In early 1996, Technologie Holding, a German venture capital group, and US venture capital group Burgess Jamieson together invested DM2.8m ($1.5m) in the company. Later the same year, France Telecom added a further DM3.2m.

In another break with German tradition, Intershop quickly shifted its focus to the US and began to grow rapidly even before it was profitable.

One of the conditions imposed by the venture capitalists was that Intershop set up an office in San Francisco. This was so the company could be close to the forces shaping its industry

e-question

'How does a company from former East Germany make it big in internet shopping software?

but also to help Intershop prepare for a listing on the Nasdaq stock exchange and thus provide a potential exit route for its investors.

"There had to be a will*ingness to expand quickly*. This was typical of a US start-up – we had already been to the US to look at how US start-ups worked," says Stephan Schambach, Intershop's chief executive, who now lives in San Francisco.

"When we founded the company, we had fun, software was cool. But to make it succeed you have to jump over hurdles and spend 10 to 20 times more time and effort on marketing. You have to catch the wave at the beginning and ride it, or you fall behind," he says.

So far, Intershop shows no sign of falling behind. From five employees at the start of 1996, its workforce has grown to 380, 160 of which are in Jena. Despite the US expansion, the company insists Jena will remain the main programming centre, partly because of the abundance of local programmers and also because wages are one-third of what they would be in Silicon Valley.

In the end, Intershop did not list on Nasdaq, but chose instead the Neuer Markt, Frankfurt's new stock market segment for young, high-tech companies, for its initial public offering.

The offering – 35 per cent of the company is now public – raised around $50m in June and marked another break with tradition since such an avenue of financing had been unavailable to small companies in Germany before March 1997 when the exchange was founded.

Remarkably, too, investors backed the offering – Intershop's share price more than doubled on the first day of trading – even though it has yet to make a profit.

Despite the rapid growth in revenues, Intershop made an $8m loss last year, is expected to lose $12m this year and will not make a *profit until 2000*.

Such a situation is common in the US, but it makes some Germans feel uncomfortable. Intershop's young executives, however, insist the company has to plough forward if it is to stay ahead of the competition.

"The big wave of e-commerce is still in front of us. It would be very unwise not to invest. If you do not invest in a market that is growing at 300 per cent a year you will not stay market leader," says Mr Beeck.

This article is part of a weekly series

LOUISE KEHOE
EAGLE EYE

Highly rated reading

An internet entrepreneur returns to the old fashioned medium of the book to describe the risky business of setting up on the web

Even in Silicon Valley, people occasionally take a break from work, ignore the telephone, let the e-mail pile up and pick up a good book.

Seeking an antidote to high-tech hype, my holiday reading began with *Burn Rate: How I survived the gold rush years on the internet*, by Michael Wolff, a journalist and writer turned internet entrepreneur. After months of attempting to explain the extraordinary stock market valuations of internet companies, I was drawn by the author's refreshing preface words: "Optimism is our bank account; fantasy is our product; press releases are our good name. My hope now is to write a sort of anti-press release." Could this be a real, down-to-earth look at the internet industry?

It turned out to be much more. As well as debunking the widespread myth that anybody with a bright idea and lots of energy can make it big on the internet, *Burn Rate* raised some thought provoking questions about the role of the internet as a publishing medium. Mr Wolff discovered the internet in 1994, along with tens of thousands of other "early adopters".

The main thrust of his story is a caustically comic account of his efforts to raise money to support his fledgling company's "burn rate" – the amount of money the business consumes each month in excess of its income. To succeed, internet start-ups must spend quickly enough to innovate and achieve market share. Mr Wolff gets caught up in the race for money. He is courted by leading venture capitalists and large publishing groups. He takes "dumb money" from a rich investor and tries to negotiate a merger. He comes tantalisingly close to striking it rich.

Others have compared internet mania to the California gold rush. Mr Wolff brings new meaning to the analogy. This book should be required reading for all would-be internet entrepreneurs. It also offers salutary lessons for internet investors.

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The bigger question raised by *Burn Rate* is how the internet fits into the world of publishing. Mr Wolff was one of the pioneers of "new media". "Content is king" was the slogan of this first generation of internet publishers. It did not matter how the internet worked. What mattered was the quality and appeal of the material presented on web pages. In those early, idealistic days of the net, people talked about the opportunities it created for Everyman to become a publisher by eliminating the costs of printing and distributing.

Yet as any regular internet user can attest, the vast majority of web sites are not inspiring. Businesses use the web to promote their products. Individuals share their thoughts on personal web sites but seldom reach an audience beyond their friends and acquaintances.

Internet news services, most of which draw heavily on traditional news media, offer useful up-to-the-minute reporting, but *most add little* extra value. Newspapers have yet to profit from their efforts. Similarly, the web sites of news magazines have become adjuncts to the *paper-based products*.

The problem, Mr Wolff maintains in a re-evaluation that should cast fear into the hearts of other electronic publishers, is that "no one reads on the internet". We all read, of course, but perhaps not for "content".

If he is right, Mr Wolff has identified a huge internet shortcoming. Could it be that most people do not like reading text on a computer screen? Perhaps the internet will become a medium dominated by trivia – the electronic equivalent of game shows and soap operas?

Not true, I would like to think. Yet the scales are tipping against internet publishers. Electronic mail and interactive "chat groups" consume the greater portion of online users' time. Electronic commerce ranks next and is growing faster among consumer uses of the internet. Internet content is becoming a filler between interactive features on web sites with products for sale or promotion or people willing to talk. No wonder Mr Wolff gave up. Books clearly provided him with a potentially more profitable publishing medium.

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EURO PRICES

EQUITIES

Europe pressed from east and west

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

There was no respite for European investors yesterday as the decline in the Japanese yen and the weakness on Wall Street squeezed the region's bourses from both sides.

Those traders who did not go on holiday in August must be wishing they had. The rapid rise of European stock markets since the start of 1995 means that share prices are trading at historically high multiples, making it hard for bargain-hunters to buy on fundamentals.

Ian Harnett, European strategist at BT Alex Brown, said that the fall in the region's markets had still not solved the valuation problem. Indeed, the decline had sent many bourses below technical support levels. "There is a risk of a further 10-15 per cent decline from here," he said.

The FTSE Eurotop 100 index dropped 2.8 per cent yesterday, or 75.3 points to 2,659.86, its lowest level since April. The index has fallen 13.3 per cent from its July 20 peak.

The broader Eurotop 300 fell 35.08 to 1,159.16 while the FTSE Ebloc 100 index, focused on countries in the core Euro region, slipped 29.5 to 974.61.

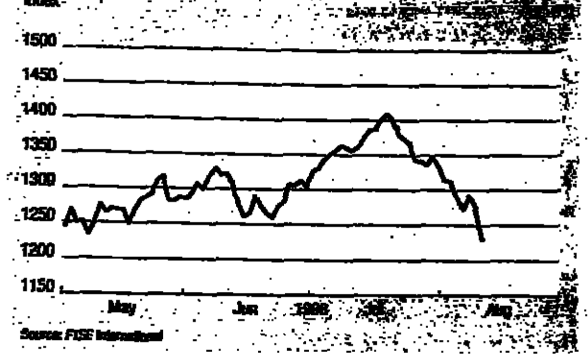
What was bad news for equities was good for bonds, with most of the continent's fixed-income markets higher as investors sought a safe haven. The yield on the 10-year German bund dropped to its lowest level since the second world war.

Only a single sector managed a gain on the day – property – where the UK group Land Securities continued its rebound, rising Ecu 0.30 to Ecu 12.76.

Even integrated oil stocks were 1.3 per cent lower, despite the announcement of BP's takeover of Amoco. An early gain in BP was eventually restricted to an Ecu 0.30 rise to Ecu 11.72 but that was cancelled out by an Ecu 18.70 decline in Petrofina following a drop in first-half profits.

Weakness in US technology stocks spread to their European counterparts and the information technology sector was the continent's worst performer of the day, falling 6.6 per cent. SAP, which has seen a sharp slide since its listing in New York, lost another Ecu 42.40 to Ecu 531.41 and Cap Gemini shed Ecu 6.10 to Ecu 129.06.

FTSE Eurotop 300 Eurobloc



Source: FTSE International

THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

[illegible]

THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

[illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

[illegible]

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

[illegible]

OTHER INDICES

	Aug 11	Aug 10	Aug 7	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	[illegible]						
DJ Euro Stx 50	[illegible]						
MSCI Europe	[illegible]						

Source: Ecobyst of FT Information. [illegible]

FTSE Actuaries Share Indices — European series

August 11

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop300	1159.16	−2.94	−35.08	2.48	20.79	1188.41
FTSE Eurotop100	2659.86	−2.75	−75.32	2.49	30.12	949.82
FTSE Ebloc 100	974.61	−2.94	−29.50	2.14	12.61	986.63
FTSE Eurotop 300 Regions						
Eurobloc	1226.37	−2.99	−37.74	2.13	18.85	1249.55
UK	1049.83	−2.67	−28.76	3.15	26.03	1068.78
Europe Ex-Eurobloc	1103.29	−2.89	−32.79	2.86	21.67	1135.51
Europe Ex-UK	1223.69	−3.06	−38.65	2.17	17.83	1244.05
FTSE Eurotop Industry Sectors						
RESOURCES	859.00	−1.29	−11.23	3.35	21.81	869.37
Extractive Industries	747.33	−1.21	−9.15	3.48	0.08	747.33
Oil, Integrated	828.31	−1.29	−10.81	3.35	15.03	839.41
Oil, Exploration & Prod	798.52	−1.54	−12.48	3.03	0.00	798.52
GENERAL INDUSTRIES	1101.51	−3.05	−34.66	2.64	18.53	1121.74
Construction	923.38	−0.43	−4.02	2.75	11.06	934.12
Building Matls & Merchs	913.40	−3.92	−37.24	2.90	7.65	919.76
Chemicals	890.34	−3.39	−31.25	3.16	15.96	904.50
Diversified Industrials	926.64	−2.30	−21.83	2.34	16.20	940.23
Electronic & Elect Equip	980.39	−3.39	−33.65	1.89	3.25	983.40
Engineering	941.23	−2.26	−21.80	3.50	9.21	949.66
Paper, Pckg & Printing	809.37	−3.31	−27.73	2.89	1.21	810.57
CONSUMER GOODS	1092.88	−2.08	−23.21	1.76	14.97	1119.17
Automobiles	1016.56	−3.51	−37.03	2.55	10.25	1025.98
Alcoholic Beverages	912.70	−3.04	−28.64	2.40	5.82	918.17
Food Producers	929.10	−2.00	−19.00	1.73	9.13	937.30
Household Goods & Texts	1019.22	−2.19	−22.78	1.81	7.01	1025.87
Healthcare	922.19	−1.83	−17.24	6.96	9.52	931.56
Pharmaceuticals	940.04	−1.82	−17.40	1.38	4.27	944.15
Tobacco	1043.89	−3.27	−35.24	4.07	1.81	1045.65
SERVICES	1162.27	−2.57	−30.65	2.32	19.32	1190.77
Distribution	831.43	−2.69	−22.97	2.62	11.37	840.77
Leisure & Hotels	832.10	−4.61	−40.23	3.00	10.42	840.93
Media	979.21	−0.91	−9.02	2.36	5.58	984.50
Retailers, Food	964.50	−2.70	−26.76	3.10	9.18	973.50
Retailers, General	956.68	−2.15	−21.03	3.58	13.94	969.76
Telecommunications	1085.04	−2.15	−23.85	1.91	12.47	1097.66
Breweries, Pubs & Rests	859.29	−2.73	−24.10	3.32	14.20	872.35
Support Services	906.12	−4.56	−43.27	1.53	5.66	911.38
Transport	990.18	−3.39	−34.78	2.49	11.76	1001.28
Information Technology	1123.71	−6.63	−79.78	0.37	2.23	1126.26
UTILITIES	1345.53	−1.75	−23.96	3.31	53.32	1418.36
Electricity	999.50	−2.24	−22.94	3.55	26.23	1026.19
Gas Distribution	1089.93	−0.67	−7.40	1.70	84.81	1190.30
Water	1047.18	−1.11	−11.76	4.90	38.72	1087.18
FINANCIALS	1308.22	−4.19	−58.33	2.58	23.08	1338.59
Banks,Retail	928.45	−4.31	−41.82	3.25	10.17	937.99
Insurance	995.61	−4.25	−44.18	1.33	8.87	1004.48
Life Insurance	1068.57	−3.14	−34.59	1.98	5.38	1074.05
Other, Financial	928.92	−3.50	−33.69	2.18	13.23	941.18
Investment Companies	962.92	−3.07	−30.50	2.58	20.66	980.51
Property	779.19	+1.28	+9.86	3.44	16.01	793.51

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FTSE EUROTOP 300

Name | Price (Ecu) | Chge +or− | Mkt cap Ecu(bn) | Vol (m) | Yld

[illegible]

Notes: Price data and capital capitalisations supplied by FTSE International. [illegible]

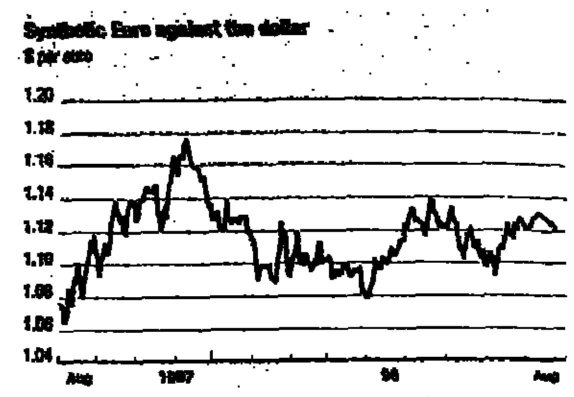
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Aug 11	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.086705	−0.0011	+0.01	+0.0029	+0.02
Belgium	BEF	41.217052	+0.0134	+0.03	−0.0109	−0.03
Czech Republic	CZK	35.795331	+0.8023	+2.30	+0.9895	+2.56
Denmark	DKK	7.615345	+0.0004	+0.01	+0.0021	+0.03
Finland	FIM	6.077282	−0.0007	−0.01	+0.0003	+0.00
France	FRF	6.702082	−0.0008	−0.01	+0.0003	+0.00
Germany	DEM	1.998236	+0.0002	+0.01	+0.0004	+0.02
Greece	GRD	331.922748	+0.3839	+0.12	−0.2546	−0.08
Hungary	HUF	249.340494	+4.3091	+1.76	+6.7594	+2.79
Ireland	IEP	0.796193	+0.0011	+0.14	−0.0011	+0.14
Italy	ITL	1971.704416	−0.3192	−0.02	−0.0050	+0.00
Luxembourg	LUF	41.217052	+0.0134	+0.03	−0.0109	−0.03
Netherlands	NLG	2.253784	−0.0005	−0.02	−0.0002	−0.01
Norway	NOK	8.531741	−0.0042	−0.05	+0.0196	+0.23
Poland	PLN	3.908572	+0.0275	+0.71	+0.0598	−1.55
Portugal	PTE	204.497529	+0.0347	+0.02	−0.1292	−0.06
Romania	ROL	9781.249585	−16.9739	−0.17	+6.1525	+0.06
Russia	RUB	7.071905	+0.0045	+0.06	+0.0280	+0.40
Slovakia	SKK	39.677193	+0.4141	+1.05	+0.7023	+1.80
Spain	ESP	169.659506	+0.0202	+0.01	−0.1292	−0.08
Sweden	SEK	9.132421	+0.0507	+0.56	+0.1706	+1.90
Switzerland	CHF	1.670725	−0.0083	−0.50	−0.0101	−0.60
United Kingdom	GBP	0.687325	−0.0011	−0.15	+0.0010	+0.14
ECU	ECU	1.013591	−0.0003	−0.03	−0.0005	−0.05
Americas						
Brazil	BRL	1.311462	−0.0017	−0.13	+0.0045	+0.34
Canada	CAD	1.706865	+0.0020	+0.12	+0.0104	+0.62
Mexico	MXN	10.342984	+0.0988	+0.96	+0.3017	+3.00
United States	USD	1.122346	−0.0010	−0.09	+0.0014	+0.13
Pacific/Middle East/Africa						
Australia	AUD	1.888511	+0.0171	+0.91	+0.0406	+2.19
Hong Kong	HKD	8.697624	−0.0070	−0.08	+0.0121	+0.14
Japan	JPY	165.142061	+0.5465	+0.33	+2.5227	+1.55
Singapore	SGD	1.976228	+0.0046	+0.24	+0.0414	+2.14
South Africa	ZAR	7.106182	+0.1005	+1.42	+0.2332	+3.36

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3384, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0398, ESP 0.0848, IEP 0.0118, PTE 0.0155, ATS 0.0329, FIM 0.0137

Synthetic Euro against the dollar



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

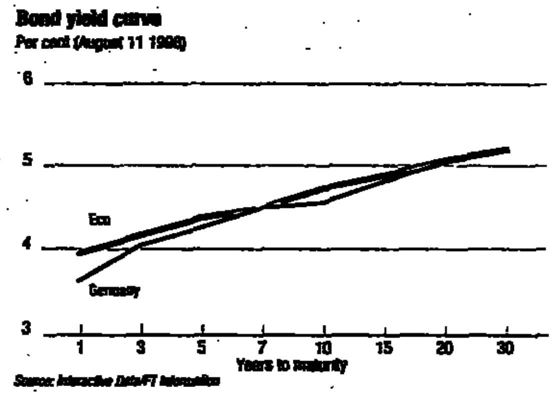
Aug 11	Fixed rate	Market rate	Diff fxd v mkt%	Week ago %	Forward rate	Forward int rate	Diff int rates v DEM
Austria	7.03552	7.036	+0.01	+0.01	7.0367	3.61	+0.03
Belgium	20.6255	20.6184	−0.04	+0.00	20.617	3.59	+0.01
France	3.35386	3.3523	−0.05	−0.03	3.3526	3.6	+0.02
Finland	3.04001	3.0398	−0.01	+0.01	3.0380	3.59	+0.01
Ireland	0.402676	0.3982	−1.11	−1.22	0.4016	5.79	+2.21
Italy	990.002	986.2741	−0.38	−0.35	990.3123	4.64	+1.06
Luxembourg	20.6255	20.6184	−0.04	+0.00	20.617	3.59	+0.01
Netherlands	1.12674	1.1273	+0.05	+0.06	1.127	3.51	−0.07
Portugal	102.505	102.2840	−0.21	−0.13	102.5197	4.17	+0.59
Spain	85.0722	84.8822	−0.25	−0.15	85.0623	4.25	+0.67
Germany	1		+0.00	+0.00		3.58	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2-3; forward rates are exchange rates to 31/12/98 interpolated from market quotes, forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve

Per cent (August 11 1998)



Source: Interactive Data/FT Information

EUROZONE CORPORATE BONDS

Aug 11	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible issues								
Belgium (Kingdom of)	03/08	5.750	N/A	108.020	4.59	−0.07	−0.17	+0.12
France (Rep of)	04/08	5.250	N/A	105.270	4.56	−0.07	−0.22	−0.06
Italy (Rep of)	05/08	5.000	AA	102.280	4.71	−0.03	−0.19	+0.29
Portugal (Rep of)	06/08	5.375	AA−	105.070	4.72	−0.05	−0.20	+0.12
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	102.240	4.31	−0.09	−0.28	+0.13
Gen Electric Cap Crp	10/04	5.500	N/A	105.880	4.42	−0.06	−0.22	+0.12
Oest Kontrollbank	04/08	5.250	AAA	104.070	4.71	−0.05	−0.21	+0.09
Cred Local de France	04/08	5.250	N/A	103.070	4.84	−0.06	−0.21	+0.22
Ecu Issues								
Bayer Hypo & Wchl Bk	07/01	5.000	AA−	102.044	4.23	−0.06	−0.17	+0.17
Cred Foncier France	03/04	8.375	A	116.490	4.92	−0.05	−0.16	+0.60
Euro Inv Bank	04/04	5.250	AAA	105.000	4.23	−0.07	−0.20	−0.07
ABN Amro Hldg. NV	04/07	6.375	AA−	109.860	4.95	−0.05	−0.19	+0.33

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Euro "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency. Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

GOVERNMENT BOND SPREADS vs ECU

Aug 11	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	−0.01	−0.07	+0.10	+0.04	+0.05	+0.04
Belgium	−0.03	−0.02	+0.10	+0.08	+0.10	+0.11
Finland	−0.02	+0.07	+0.15	+0.07	−0.28	−0.49
France	−0.08	−0.11	−0.06	−0.04	−0.03	−0.05
Germany	−0.18	−0.12	−0.01	−0.16	+0.00	−0.08
Ireland	+0.68	+0.00	+0.08	+0.13	+0.19	+0.22
Italy	+0.32	+0.20	+0.21	+0.16	+0.13	+0.19
Luxembourg	−0.03	−0.02	+0.10	+0.08	+0.10	+0.11
Netherlands	−0.07	−0.07	+0.00	−0.04	−0.05	−0.03
Portugal	+0.19	+0.15	+0.18	+0.20	+0.24	+0.32
Spain	+0.03	+0.06	+0.11	+0.14	+0.21	+0.27
"Outs"						
Denmark	+0.32	+0.21	+0.26	+0.15	+0.08	+0.22
Greece	+6.22	+4.02	+3.24	+2.63	+2.10	+1.89
Sweden	+0.36	+0.31	+0.33	+0.22	+0.21	+0.00
UK	+2.69	+1.82	+1.36	+0.87	+0.56	+0.13

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Aug 11	S & P rating	Red date	Coupn	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.05	+0.01	+0.00
France Telcom	AA+	11/08	6.250	FRF	+0.15	+0.13	+0.16
Halifax	AA	07/07	5.625	DEM	+0.18	+0.16	+0.19
Ing Bank NV	AA−	01/08	5.500	NLG	+0.19	+0.18	+0.18
Bayer Hypo W Bk	AA−	02/02	6.750	ITL	+0.32	+0.27	+0.31
Cred Foncier	A	02/03	7.250	DEM	+0.30	+0.31	+0.32
Thomson-Brandt Int	A−	03/04	6.375	FRF	+0.34	+0.34	+0.36
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.32	+0.31	+0.32
Bank of China	BBB	07/99	7.125	DEM	+2.18	+0.59	+0.90
Natl Bk of Hungary	BBB−	06/01	9.000	ATS	+0.75	+0.58	+0.68
Korea Dev Bank	BB+	11/02	5.625	FRF	+6.47	+5.90	+5.81
Argentina	N/A	04/08	8.125	XEU	+3.68	+3.22	+3.20

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

Flight from equities lifts prices

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Misery across global equity markets, a weaker yen and fears of another round of Asian currency devaluations sent investors piling into bonds yesterday, with some futures reaching new highs.

Emerging market sentiment, already weak, was further unnerved by an early but vague report that Indonesia had defaulted on repayment of its debt, and sharp falls in prices of Russian debt.

Jakarta later said it had not met some principal payments on its sovereign debt in August, but that this was not a default as it had already been agreed by the international community.

Nevertheless the damage had been done and bond markets continued to surge. In Germany, the yield on the benchmark cash bund contract dropped to 4.36 per cent, its lowest since the second world war.

In futures, a steep drop on Wall Street and strength in US Treasury prices helped the key bund contract hit a record high.

"It really has been one-way traffic today. The Asian backdrop has been supportive, there's an ongoing flight from equities into bonds and into quality. It's very difficult to think of a reason not to be long bonds at the moment and there are a lot of good reasons to be nervous on equities," said Padhraic Garvey, bond strategist at ABN Amro in Amsterdam.

He said there was evidence of strong buying by retail investors as European fund managers participated in the bond rally for the first time in weeks.

US TREASURIES pushed higher on the "flight to quality", as the dollar rose against the yen and stocks continued to fall globally.

By early afternoon the benchmark 30-year bond was up $\frac{5}{32}$ to $107\frac{11}{16}$, sending the yield down to 5.588 per cent. The two-year note rose $\frac{1}{32}$ to $100\frac{5}{32}$, yielding 5.289 per cent while the 10-year note gained $\frac{5}{32}$ to 102, yielding 5.358 per cent.

However, prices were coming off morning highs as the US stock market showed signs of turning around. Supply was also weighing on the market going into an afternoon auction of $16bn five-year notes. Similar auctions in other maturities will take place today and tomorrow.

GERMAN BUNDS, together with US Treasuries, were the main beneficiaries of the gloom in equities. Volume was heavy with 633,000 lots of the benchmark bund future traded.

"Bunds have been unstoppable," said Michael Derks, senior bond strategist at Nomura. He said the release of another grim assessment of the Japanese economy, this time by the government's Economic Planning Agency, got bunds off to a good start. The EPA said that the outlook for the Japanese economy was "exceedingly severe".

The key bund future struck a record high of 110.81 before settling back at 110.80, a gain of 0.48 points since the previous close.

UK GILTS underperformed other European bond markets on lingering concerns over the Bank of England's inflation report, expected today, but still managed to end solidly higher.

The September 10-year gilt future settled 0.30 points higher at 110.46 in heavy volume of 79,000 contracts.

Neil Parker, treasury economist at Royal Bank of Scotland, said markets were hoping the Bank will say it is confident of meeting its inflation target.

"The time has come for them to recognise that things in the economy are basically in line and if we don't meet the inflation target, the likelihood is we'll undershoot [it] rather than overshoot," he said.

CFTC in meeting on Cantor exchange

By Nikki Tait in Washington

Opponents and supporters of what could be the first wholly electronic futures exchange in the US were due to face off at the Commodity Futures Trading Commission, the industry regulator, yesterday afternoon.

The CFTC, which has yet to approve the proposed Cantor Financial Futures Exchange, convened a public meeting on the issue. In particular, it asked for views on the new exchange's proposed governance structure, its core "trade-matching" technology, and its compliance arrangements. Disciplinary and arbitration arrangements were also cited as areas for discussion.

The new exchange is a joint venture between Cantor Fitzgerald, the US broker-dealer, and the New York Board of Trade, one of the smaller Manhattan-based futures markets. It proposes to trade futures on US Treasury bonds and 10-year, five-year and two-year notes.

Although the start of trading is contingent on CFTC approval, the CFFE hopes to be in business next month.

However, strong opposition was expected at the meeting by lawyers for the Chicago Board of Trade, whose interest rate-related business could be threatened by the new exchange.

The CBOT has already attacked the exchange's proposed supervision and governance arrangements, and its objections were likely to be detailed further yesterday.

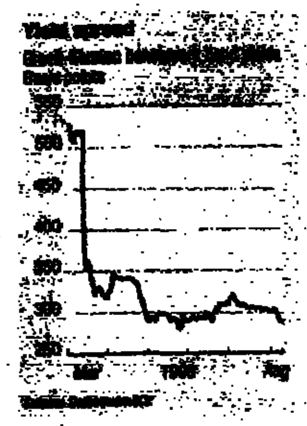
Its board has also agreed to bring on daytime electronic trading of its interest rate contracts later in September in an effort to combat the CFFE's influence.

FOREIGN BORROWING GREECE EASES RULES

Athens allows bigger deals in drachma

By Kerin Hope

Greece is trying to accommodate an increasing number of foreign institutions that are keen to exploit one of the few remaining gambles on European economic and monetary union interest rate convergence, by issuing drachma-denominated debt.



Between 40 and 50 applications from sovereign and corporate borrowers based outside Greece are awaiting approval at the central bank.

The queue has doubled in length since March, when Greece launched its effort to qualify for Emu membership by 2001, a central bank official said.

To ease the congestion, the Bank of Greece has decided to increase the size of drachma issues by foreign borrowers.

From September, the allocation for each issue will rise from Dr10bn to Dr30bn ($102m). But the bank says it does not intend to abolish the queueing system for the moment.

"Permitting bigger issues should deepen the market's liquidity as well as reducing the heavy backlog of applications," the central bank official said. "But we need to go cautiously, because the market is still at an early stage of development."

The central bank says it is trying to make the market more flexible by offering foreign borrowers a choice of issue dates.

However, if demand for drachma-denominated bonds continues at present rates "we'll start look at other ways of accommodating borrowers", the official said.

International borrowers raised about Dr250bn in drachma-denominated debt last year, mostly through issues with a maturity of three to five years. Since April, the central bank has allocated about Dr200bn a month in drachma-denominated issues.

However, the finance ministry is concerned that domestic bonds may be less popular if foreign borrowers are allowed unrestricted access to the drachma market. With a monthly borrowing requirement forecast at an average Dr850bn this year, the government relies on foreign exchange inflows to help finance public debt.

Nikos Christodoulakis, deputy finance minister with responsibility for debt management, said: "We still have work to do on rationalising the domestic bond market. We don't want an exaggerated number of foreign issuers because they could affect domestic liquidity."

Defensiveness to the fore

INTERNATIONAL BONDS

By Vincent Boland

Defensive strategies again came to the fore yesterday as investors fled the turmoil in equity markets.

Bankers said spreads on high-grade paper in the secondary market widened by three to five basis points, while emerging market spreads soared, led by Russian debt.

The spread of the benchmark 2007 Russian eurobond over the comparable US Treasury was 1,962 basis points in late trading, compared with its June 1997 issue price of 375 basis points.

ABBEY NATIONAL TREASURY SERVICES launched a $1.5bn, two-tranche issue of one-year paper targeted at money market funds.

A $1bn tranche was priced at 15 basis points below Libor and met good demand across the spread of buyers, including central bank interest. "Investors clearly like the front end of the curve given where Libor is," said a banker at lead manager Lehman Brothers.

The second tranche, of $500m, was priced at three basis points over Federal Funds and was targeted at US investors.

BANKAMERICA returned to the FRN market with a $500m seven-year issue that is likely to be its last before its merger with NationsBank is finalised. The bonds were sold mainly to European accounts, according to a syndicate banker at PaineWebber, joint lead manager with Barclays Capital.

The bonds were priced at 12.5 basis points over three-month Libor.

"There is a surge in liquidity right now and a preference for senior, liquid issues," the banker said. "NationsBank has a five-year issue and investors didn't mind going the extra two years because they wanted a couple of basis points more yield."

ORESUNDSKONSORTIET, the consortium building a road and rail bridge across the Oresund strait to link Denmark and Sweden, issued $200m of one-year zero-coupon notes, taking advantage of the higher demand for highly rated issues. The bonds, priced on an absolute yield basis, were guaranteed by the two governments.

Denmark and Sweden are rated AA+ but the consortium is AAA rated, reflecting the joint guarantee.

"The whole is greater than the sum of its parts. That added another level of interest to the deal," said a banker at Nomura International, lead manager, adding that it was targeted at institutions interested in sovereign or quasi-sovereign paper for liquidity management purposes.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Abbey Natl Trsy Services‡	1bn	(a1)	100.01074	Aug 1999	0.05	-	Lehman Brothers
Abbey Natl Trsy Services‡	500	(a2)	100.05	Aug 1999	0.05	-	Lehman Brothers
BankAmerica Corp(b)‡	500	(b1)	100.028R	Sep 2005	0.20R	-	Barclays/PaineWebber
Oresundskonsortiet	200	zero	94.774	Aug 1999	0.10	-	Nomura International
STERLING							
Scottish Power plc	50	6.63(s)	100.25	Nov 2004	0.25	-	Merrill Lynch International
FRENCH FRANCS							
Merrill Lynch & Co(c)	500	5.375	102.05R	Jun 2010	0.425R	+47(i)	Merrill Lynch Finance
SWISS FRANCS							
DeNIB(d)	150	2.75	101.825	Jun 2003	2.00	-	CSFB
EUROS(e)							
GECC	375	5.125	100.00R	Sep 2015	0.55R	+26(i)	Paribas

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a1) 3-mth libor -15bp; short 1st & long last coupons. a2) Fed funds +3bp, paid quarterly. b) Callable from Sep 03 at par. b1) 3-mth Libor +12½bp. c) Fungible with FFr1.5bn. Plus 67 days accrued. d) Fungible with SFr200m. Plus 94 days accrued. e) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. i) Over interpolated yield. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Aug 11	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.5398	5.37	+0.09	+0.22	+0.15	+0.10
	08/08	8.750	123.0104	5.67	+0.03	+0.17	+0.29	-1.16
Austria	07/00	5.875	103.5000	3.95	-0.05	-0.10	+0.12	-0.12
	01/08	5.000	102.7800	4.63	-0.07	-0.12	-0.14	-1.11
Belgium	01/00	4.000	100.2700	3.79	-0.08	-0.20	-0.20	-0.09
	03/08	6.750	108.0200	4.69	-0.07	-0.12	-0.13	-1.10
Canada	03/00	5.000	99.8000	5.26	-0.06	-0.02	+0.09	+0.62
	06/08	6.000	103.8200	5.49	-0.05	+0.05	+0.23	-0.57
Denmark	11/00	9.000	109.8544	4.30	-0.03	-0.08	+0.06	-0.17
	11/07	7.000	116.4800	4.76	-0.08	-0.14	-0.13	-1.52
Finland	01/99	11.000	103.0034	3.51	-0.02	-0.10	-0.10	-0.35
	04/08	6.000	110.0750	4.68	-0.03	-0.11	-0.06	-1.23
France	01/00	4.000	100.3000	3.76	-0.06	-0.12	-0.12	-0.23
	04/05	7.500	118.2200	4.30	-0.07	-0.14	-0.16	-0.92
	04/08	5.250	105.2700	4.56	-0.07	-0.14	-0.17	-1.06
	04/29	5.500	105.4800	5.14	-0.06	-0.12	-0.14	-1.24
• Germany	03/00	4.000	100.4500	3.69	-0.07	-0.19	-0.09	-0.10
	10/05	6.500	112.7000	4.39	-0.07	-0.15	-0.12	-0.89
	01/08	5.250	105.8100	4.47	-0.07	-0.14	-0.22	-1.22
	01/28	5.625	107.9100	5.10	-0.05	-0.12	-0.17	-1.33
Ireland	10/01	6.500	106.1000	4.40	-0.05	-0.17	-0.72	-1.54
	08/08	8.000	109.7300	4.75	-0.06	-0.12	-0.16	-1.89
Italy	04/01	4.500	100.6700	4.22	-0.04	-0.12	-0.08	-1.94
	05/03	4.750	101.4000	4.42	-0.04	-0.12	-0.06	-1.91
	05/08	5.000	102.1300	4.72	-0.04	-0.13	-0.18	-1.93
	11/27	6.500	117.9700	5.28	-0.04	-0.11	-0.17	-2.04
Japan	03/00	6.400	109.4200	0.45	+0.02	-0.03	-0.07	-0.17
	06/03	4.500	116.8000	0.94	+0.02	-0.04	-0.07	-0.69
	09/05	3.000	111.8500	1.25	+0.02	-0.03	-0.18	-0.91
	03/18	2.700	109.6200	2.10	+0.01	-0.04	-0.15	-0.85
Netherlands	05/00	9.000	108.5600	3.84	-0.06	-0.15	-0.08	-0.10
	07/08	5.250	105.1800	4.59	-0.05	-0.12	-0.10	-1.06
New Zealand	02/01	8.000	102.9989	6.63	+0.08	+0.04	-0.58	-0.74
	11/06	8.000	110.5849	6.31	+0.07	+0.11	-0.05	-0.81
Norway	01/99	9.000	101.4000	5.84	+0.09	+0.29	+0.30	+1.12
	01/07	6.750	109.3900	5.33	-0.04	-0.01	-0.02	-0.78
Portugal	03/00	5.375	101.9100	4.11	-0.04	-0.05	-0.12	-1.23
	06/08	5.375	104.3500	4.81	-0.04	-0.10	-0.10	-1.58
Spain	04/00	6.750	104.3700	3.98	-0.11	-0.12	-0.17	-1.15
	01/08	6.000	109.4800	4.73	-0.05	-0.13	-0.13	-1.61
Sweden	05/00	10.250	109.6850	4.28	-0.05	-0.03	+0.14	-0.55
	05/08	6.500	112.7310	4.82	-0.06	-0.06	-0.02	-1.75
Switzerland	03/00	5.000	104.6700	1.95	-0.04	-0.14	-0.29	+0.42
	05/07	4.500	113.7500	2.73	-0.04	-0.12	-0.44	-0.74
UK	11/01	7.000	102.0219	6.29	-0.03	-0.18	-0.87	-0.67
	12/03	6.500	102.8882	5.86	-0.04	-0.17	-0.14	-1.22
	12/07	7.250	112.1043	5.57	-0.03	-0.12	-0.22	-1.51
	12/28	6.000	110.3750	5.31	-0.03	-0.03	-0.28	-1.74
US	05/00	5.500	100.3173	5.31	-0.05	-0.13	-0.18	-0.67
	05/03	5.500	100.6003	5.36	-0.06	-0.11	-0.15	-0.98
	05/08	5.625	102.1165	5.34	-0.07	-0.09	-0.17	-1.07
	11/27	6.125	107.8485	5.58	-0.04	-0.07	-0.10	-1.11
ECU	07/00	4.000	100.0300	3.88	-0.06	-0.14	-0.06	-0.50
	04/08	5.250	104.9700	4.80	-0.06	-0.14	-0.14	-1.38

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Aug 11	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.65	+1.19	+0.31
Austria	4.66	+0.20	-0.68
Belgium	4.70	+0.24	-0.64
Canada	5.49	+1.03	+0.15
Denmark	4.77	+0.31	-0.57
Finland	4.69	+0.23	-0.65
France	4.58	+0.12	-0.76
Germany	4.46	-	-0.88
Ireland	4.75	+0.29	-0.59
Italy	4.78	+0.32	-0.56
Japan	1.50	-2.96	-3.84
Netherlands	4.58	+0.12	-0.76
New Zealand	6.31	+1.85	+0.97
Norway	5.32	+0.86	-0.02
Portugal	4.82	+0.36	-0.52
Spain	4.76	+0.30	-0.58
Sweden	4.84	+0.38	-0.50
Switzerland	2.72	-1.74	-2.62
UK	5.49	+1.03	+0.15
US	5.34	+0.88	-
ECU	4.62	+0.16	-0.72

Source: Interactive Data/FT Information. London closing, * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

[illegible]

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	106.33	106.78	+0.57	106.88	106.31	98,901	143,642
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONG TERM FRENCH BOND OPTIONS (MATIF)

[illegible]

Germany

[illegible]

Italy

[illegible]

Spain

[illegible]

UK

[illegible]

US

[illegible]

Japan

[illegible]

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	-	105.78	+0.56	-	-	0	18

US CORPORATE BONDS

[illegible]

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

Aug 11	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EIB	02/07	5.750	AAA	107.8400	4.61	-0.06	-0.20	+0.13
Spain	01/07	5.750	AA	107.7200	4.61	-0.07	-0.19	+0.13
[illegible]								

UK BONDS

FTSE Actuaries Govt. Securities

[illegible]

UK Indices

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

هكذا صدر

Yen prompts plunge beyond Asia

MARKETS REPORT

By Simon Kuper

The currencies of Japan, the rest of Asia and most countries that export commodities fell with stock markets worldwide yesterday.

Many currency strategists blame Japan for setting off the turmoil. Michael Scarlatos, strategist at Bankers Trust in New York, said the new Japanese government was perceived to have dilly-dallied on issues of tax cuts and bank reform. That had hit the Japanese stock market, which fell yesterday for the seventh day running, and the yen. This in turn had raised the prospect that China might devalue the renminbi and the Hong Kong dollar.

That had prompted talk that most other Asian currencies would be weakened by further depreciation, and that had then hit other emerging markets, notably Russia. Fears of a new Asian crisis had driven commodity prices even further downward, and that has hurt the Canadian dollar, the Australasian currencies, the South African rand, most Latin American coins and the Norwegian krone. Norway raised interest rates yesterday to defend its currency.

Meanwhile the falls in these various markets have helped crystallise concerns that western stock markets were overvalued. They plunged again yesterday. Just in case anyone had any spare nerves left to frazzle, it was reported that Indonesia had defaulted on some of its debt.

No wonder that traders are seeking safe havens. The dollar rose yesterday to a eight-year high against the yen, and the Swiss franc gained. Traders still expect intervention for the yen at some point. However, they noted that while Japanese officials were threatening to intervene for the yen, US officials were silent. "Without the Fed, intervention is going to be laughed at," said Peter von Maydell, senior currency strategist at Credit Suisse First Boston in London. A German magazine has quoted Alan Greenspan, chairman of the Federal Reserve, as saying that Japan was doing too little to reform its economy.

The yen also suffered on the news reported in the Financial Times that the People's Bank of China had been selling yen. The bank has cut its holdings in the currency from just below a third of its portfolio to below a quarter, in order to maintain the value of its reserves as the yen falls. The bank may sell more if the yen slides further. China's foreign exchange reserves total $140bn, the second biggest holding in the world after Japan's.

China reiterated yesterday that it would not devalue.

The yen dropped Y0.6 against the dollar, dropping through its eight-year low of Y146.75 to close in London at Y147.1. It fell Y0.26 against the D-Mark to Y82.60. The Swiss franc rose SFr0.6 against the dollar to SFr1.489.

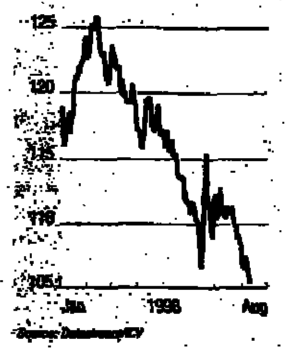
■ Norwegian interest rates hit a five-year peak as the country's central bank defended the krone. Norges Bank raised its overnight lending rate and its deposit rate by 50 basis points each to 7.50 per cent and 5.50 per cent respectively.

Endre Skjoerestad, deputy finance minister, attributed the move to falls in commodity prices. Oil prices have hit a 10-year low and the Asian crisis has hurt Norway. The krone rose marginally from NKr4.270 to NKr4.268 against the D-Mark.

■ The sun rises in the morning and soon afterwards the Bank of Canada intervenes for the Canadian dollar. It has done so for at least four sessions running now. Yet the currency closed 0.3 cents down against the US dollar at C$1.521. The bank had intervened at C$1.5230. 4CAST, the economics consultancy, noted: "The central bank looks to be getting a lesson in the laws of diminishing returns. The element of surprise is already slipping away."

■ Liu Mingkang, deputy governor of China's central bank, yesterday gave various reasons why a devaluation might hurt China. "A drastic devaluation could bring about a short-term export recovery but it will not help China's long-term strategic competitiveness," he said. A devaluation could also hit public confidence in the renminbi, fuel inflation, and hurt other countries.

Japan
Yen trade-weighted index



Source: Datastream/ICV

■ POUND IN NEW YORK

Aug 11	—Latest—	– Prev. close –
£ spot	1.6295	1.6355
1 mth	1.6265	1.6325
3 mth	1.6214	1.6276
1 yr	1.6010	1.5977

■ OTHER CURRENCIES

Aug 11	£	$
Czech Rp	51.9119 - 51.9885	31.7890 - 31.8290
Hungary	362.268 - 363.285	221.910 - 222.410
Iran	4900.20 - 4907.50	3000.00 - 3000.00
Kuwait	0.5017 - 0.5021	0.3073 - 0.3074
Peru	4.8126 - 4.8202	2.9480 - 2.9510
Poland	5.6811 - 5.6924	3.4800 - 3.4850
Russia	10.2848 - 10.2937	6.3000 - 6.3020
U.A.E.	5.9986 - 5.9995	3.6729 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Aug 11		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.4663	+0.0321	556 - 770	20.5328	20.4501	20.3896	4.5	20.2556	4.1	19.7421	3.5	103.7
Belgium	(BFr)	59.9685	+0.1085	111 - 258	60.1840	59.9100	59.7438	4.5	59.3584	4.1	57.8285	3.6	103.1
Denmark	(DKr)	11.0799	+0.017	752 - 845	11.1178	11.0706	11.0454	3.7	10.9833	3.5	10.7344	3.1	108.2
Finland	(FM)	8.8420	+0.012	351 - 489	8.8719	8.8240	8.8098	4.4	8.7518	4.1	8.5282	3.6	81.9
France	(FFr)	9.7512	+0.0133	452 - 571	9.7850	9.7398	9.715	4.5	9.6509	4.1	9.4634	3.6	106.8
Germany	(DM)	2.9088	+0.0045	073 - 102	2.9195	2.9050	2.8979	4.5	2.8787	4.1	2.8045	3.6	105.0
Greece	(Dr)	482.929	+1.275	428 - 437	484.944	481.849	484.807	-4.7	488.325	-4.5	499.841	-3.5	82.7
Ireland	(I£)	1.1584	+0.0032	580 - 587	1.1612	1.1557	1.1571	1.4	1.154	1.5	1.128	2.6	95.1
Italy	(L)	2868.85	+3.8	780 - 079	2879.91	2855.84	2862.01	2.9	2848.88	2.8	2779.49	3.1	76.4
Luxembourg	(LFr)	59.9685	+0.1085	111 - 258	60.1840	59.9100	59.7438	4.5	59.3524	4.1	57.8285	3.6	103.1
Netherlands	(Fl)	3.2791	+0.0041	777 - 805	3.2906	3.2760	3.2687	4.8	3.2446	4.2	3.1604	3.6	102.5
Norway	(NKr)	12.4131	+0.0123	073 - 189	12.4890	12.3881	12.3922	2.0	12.3574	1.8	12.2277	1.5	96.0
Portugal	(Es)	297.524	+0.493	360 - 687	298.635	297.323	296.545	3.5	295.02	3.4	287.848	3.3	92.4
Spain	(Pta)	246.845	+0.398	736 - 954	247.570	246.480	246.133	3.5	244.821	3.3	238.717	3.3	77.4
Sweden	(SKr)	13.2872	+0.0334	753 - 990	13.3380	13.2398	13.2468	3.7	13.1738	3.4	12.8816	3.1	83.0
Switzerland	(SFr)	2.4308	-0.0084	293 - 323	2.4477	2.4291	2.418	6.3	2.3954	5.8	2.3048	5.2	108.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	104.4
Ecu	-	1.4747	+0.0818	738 - 755	1.4793	1.4739	1.4701	3.7	1.4618	3.5	1.4253	3.3	-
SDR†	-	1.22986	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6327	+0.001	322 - 331	1.6357	1.6288	-	-	-	-	-	-	-
Brazil	(R$)	1.9081	+0.0003	074 - 088	1.9134	1.9040	-	-	-	-	-	-	-
Canada	(C$)	2.4833	+0.0086	822 - 844	2.4888	2.4777	2.4773	2.9	2.4679	2.5	2.4334	2.0	78.2
Mexico	(New Peso)	15.0485	+0.1659	402 - 567	15.1553	14.8719	15.303	-20.3	15.7471	-18.6	17.9357	-19.2	-
USA	($)	1.6330	+0.001	325 - 334	1.6360	1.6289	1.63	2.2	1.6248	2.0	1.6046	1.7	115.0
Pacific/Middle East/Africa													
Australia	(A$)	2.7549	+0.0288	530 - 568	2.7570	2.7328	2.7486	2.8	2.7379	2.5	2.6987	2.0	81.5
Hong Kong	(HK$)	12.6546	+0.0086	502 - 589	12.6777	12.6238	12.7138	-5.6	12.8142	-5.0	13.3411	-5.4	-
India	(Rs)	70.0454	+0.4101	853 - 055	70.1060	69.6230	-	-	-	-	-	-	-
Indonesia	(Rupiah)	21636.66	+258.1	575 - 756	22033.40	20754.30	22687.26	-58.6	24128.78	-46.1	30165.74	-39.4	-
Israel	(Shk)	6.0148	-0.0026	048 - 248	6.0250	6.0037	-	-	-	-	-	-	-
Japan	(Y)	240.272	+1.15	124 - 420	240.910	238.670	238.752	7.6	235.947	7.2	224.202	6.7	105.5
Malaysia	(M$)	6.9405	+0.0386	308 - 501	6.9686	6.8984	7.0419	-17.5	7.2309	-16.7	7.7424	-11.6	-
New Zealand	(NZ$)	3.2558	+0.0442	526 - 590	3.2595	3.2391	3.2539	0.7	3.2514	0.5	3.2507	0.2	93.3
Philippines	(Peso)	71.5233	-0.5274	586 - 879	71.7902	71.2514	72.0696	-9.2	73.0539	-8.6	78.0153	-9.1	-
Saudi Arabia	(SR)	6.1250	+0.004	230 - 269	6.1361	6.1162	6.1198	1.0	6.1108	0.9	6.0611	0.7	-
Singapore	(S$)	2.8752	+0.0111	732 - 772	2.8920	2.8158	2.874	0.5	2.8714	0.5	2.8521	0.8	-
South Africa	(R)	10.4264	+0.1614	154 - 374	10.4783	10.2897	10.5703	-16.6	10.8061	-14.5	11.6731	-12.0	-
South Korea	(Won)	2187.34	+2.97	939 - 529	2195.74	2155.77	-	-	-	-	-	-	-
Taiwan	(T$)	56.8564	+0.0748	273 - 734	56.9144	56.7297	57.1946	-7.3	57.5968	-6.0	58.8302	-3.5	-
Thailand	(Bt)	68.3186	+0.94	180 - 195	69.5010	68.6000	70.4958	-20.4	72.0611	-15.8	77.8209	-12.3	-

† Rates for Aug 10. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Aug 11		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.5333	+0.0119	302 - 364	12.5790	12.5140	12.5092	2.3	12.4663	2.1	12.3038	1.8	103.5
Belgium	(BFr)	36.7240	+0.044	990 - 490	36.8650	36.6800	36.6535	2.3	36.5285	2.1	36.039	1.9	103.2
Denmark	(DKr)	6.7852	+0.0063	842 - 862	6.8169	6.7747	6.7784	1.5	6.7567	1.5	6.6869	1.4	105.6
Finland	(FM)	5.4146	+0.0041	120 - 175	5.4355	5.4085	5.4048	2.2	5.3883	2.1	5.3138	1.9	81.6
France	(FFr)	5.9715	+0.0045	695 - 735	5.9982	5.9636	5.9602	2.3	5.9306	2.1	5.8604	1.9	106.4
Germany	(DM)	1.7813	+0.0017	809 - 817	1.7881	1.7786	1.7779	2.3	1.7717	2.2	1.7478	1.9	134.8
Greece	(Dr)	295.740	+0.6	510 - 970	297.220	295.030	297.435	-6.9	300.54	-6.5	311.39	-5.3	62.9
Ireland	(I£)	1.4097	-0.0031	072 - 122	1.4125	1.4057	1.4087	0.8	1.4081	0.5	1.4225	-0.9	-
Italy	(L)	1756.85	+1.25	620 - 750	1764.00	1754.40	1755.88	0.7	1753.22	0.8	1732.25	1.4	76.3
Luxembourg	(LFr)	36.7240	+0.044	990 - 490	36.8650	36.6800	36.6535	2.3	36.5285	2.1	36.039	1.9	103.2
Netherlands	(Fl)	2.0081	+0.0013	078 - 084	2.0161	2.0052	2.0042	2.4	1.9969	2.2	1.9697	1.9	102.3
Norway	(NKr)	7.6017	+0.0029	002 - 031	7.6480	7.5809	7.6028	-0.2	7.6055	-0.2	7.6207	-0.2	96.3
Portugal	(Es)	182.200	+0.19	150 - 250	182.920	181.960	181.985	1.4	181.57	1.4	179.27	1.6	93.0
Spain	(Pta)	151.165	+0.15	140 - 190	151.700	150.918	151.005	1.3	150.675	1.3	148.775	1.6	77.2
Sweden	(SKr)	8.1369	+0.0522	319 - 419	8.1700	8.1050	8.127	1.5	8.1072	1.4	8.0282	1.3	85.3
Switzerland	(SFr)	1.4886	-0.0081	881 - 891	1.4963	1.4863	1.4834	4.2	1.4742	3.9	1.4365	3.5	105.4
UK	(£)	1.6330	+0.001	325 - 334	1.6360	1.6289	1.63	2.2	1.6248	2.0	1.6046	1.7	104.1
Ecu	-	1.1074	-0.0005	070 - 077	1.1085	1.1032	1.1088	-1.5	1.1116	-1.5	1.1259	-1.7	-
SDR†	-	0.75452	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-	998 - 998	0.9998	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.1685	-0.0005	684 - 686	1.1705	1.1683	-	-	-	-	-	-	-
Canada	(C$)	1.5208	+0.0031	205 - 210	1.5227	1.5176	1.5199	0.7	1.519	0.5	1.5166	0.3	78.7
Mexico	(New Peso)	9.2155	+0.096	130 - 180	9.2180	9.1980	9.3885	-22.5	9.6915	-20.7	11.178	-21.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	115.7
Pacific/Middle East/Africa													
Australia	(A$)	1.6871	+0.0187	863 - 878	1.6883	1.6722	1.6863	0.6	1.6837	0.8	1.673	0.8	81.7
Hong Kong	(HK$)	7.7495	+0.0005	490 - 500	7.7500	7.7480	7.8	-7.8	7.8865	-7.1	8.3145	-7.3	-
India	(Rs)	42.8950	+0.225	700 - 200	42.9300	42.6750	43.325	-12.0	44.145	-11.7	47.39	-10.5	-
Indonesia	(Rupiah)	13250.00	+150	000 - 000	13500.00	12700.00	13925	-61.1	14650	-48.3	18800	-41.9	-
Israel	(Shk)	3.6834	-0.0038	783 - 885	3.6885	3.6777	-	-	-	-	-	-	-
Japan	(Y)	147.140	+0.615	090 - 190	147.630	146.050	146.475	5.4	145.215	5.2	139.73	5.0	107.2
Malaysia	(M$)	4.2503	+0.021	455 - 550	4.2700	4.2200	4.3203	-19.8	4.4503	-18.8	4.8253	-13.5	-
New Zealand	(NZ$)	1.9938	+0.0259	924 - 952	1.9960	1.9810	1.9969	-1.9	2.0023	-1.7	2.0211	-1.4	-
Philippines	(Peso)	43.8000	-0.35	500 - 500	43.9500	43.6500	44.2155	-11.4	44.961	-10.6	48.621	-11.0	-
Saudi Arabia	(SR)	3.7509	+0.0002	507 - 510	3.7510	3.7505	3.7547	-1.2	3.7609	-1.1	3.7899	-1.0	-
Singapore	(S$)	1.7608	+0.0058	600 - 615	1.7690	1.7230	1.7633	-1.7	1.7673	-1.5	1.7775	-1.9	-
South Africa	(R)	6.3850	+0.095	800 - 900	6.4225	6.2900	6.485	-18.8	6.65	-16.6	7.275	-13.9	-
South Korea	(Won)	1339.50	+1	500 - 400	1344.00	1319.00	-	-	-	-	-	-	-
Taiwan	(T$)	34.8145	+0.0045	100 - 190	34.8300	34.7870	35.0895	-9.5	35.5095	-8.0	36.6645	-5.3	-
Thailand	(Bt)	42.4500	+0.55	000 - 000	42.5800	41.9500	43.25	-22.6	44.35	-17.9	48.5	-14.3	-

† SDR rate per $ for Aug 10. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Aug 10: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.

- The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

Aug 11	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3⅜	3½	3½	3½	3⅝	6.00	2.75	-
France	3⅝	3⅜	3⅜	3⅝	3⅝	4.60	-	3.30
Germany	3¼	3⅜	3⅝	3⅝	3⅝	4.50	2.50	3.30
Ireland	6¼	6⅜	6¼	5⅞	4⅞	-	-	6.75
Italy	4⅞	4⅞	4⅝	4½	4¼	6.50	5.00	4.96
Netherlands	3⅜	3⅝	3⅝	3½	3⅝	-	2.75	3.30
Switzerland	1⅝	1⅞	1⅜	1½	2	-	1.00	-
US	5⅝	5⅝	5⅝	5⅝	5⅝	-	5.00	-
Japan	⅛	⅝	¾	⅝	⅝	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	5⅝	5⅝	5⅝	5¾	-	-	-
US Dollar CDs	-	5.40	5.41	5.45	5.50	-	-	-
ECU Linked Ds	-	4⅝	4⅝	4⅝	4⅝	-	-	-
SDR Linked Ds	-	3⅝	3⅝	3⅝	4.00	-	-	-

London Interbank fixing rate (LIBOR) is the BBA London rate. fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Aug 11	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3½ - 3⅜	3⅝ - 3½	3⅝ - 3½
Danish Krone	4¼ - 4	4⅝ - 4½	4½ - 4⅜	4⅜ - 4¼	4⅜ - 4¼	4⅝ - 4½
German Mark	3⅜ - 3¼	3⅜ - 3¼	3⅝ - 3½	3⅜ - 3¼	3⅝ - 3½	3⅝ - 3½
Dutch Guilder	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3⅝ - 3½	3⅜ - 3¼	3⅜ - 3¼
French Franc	3⅜ - 3¼	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3⅜ - 3¼	3⅝ - 3½
Portuguese Esc.	4⅝ - 4½	4⅝ - 4½	4⅝ - 4¼	4⅝ - 4½	4⅜ - 4¼	4⅜ - 4¼
Spanish Peseta	4⅝ - 4¼	4⅝ - 4½	4⅜ - 4¼	4⅜ - 4¼	4⅜ - 4¼	4⅜ - 4¼
Sterling	8¼ - 7¼	7⅝ - 7½	7⅞ - 7¾	7¾ - 7⅝	7¾ - 7⅝	7⅝ - 7½
Swiss Franc	1⅝ - 1½	1⅝ - 1½	1⅝ - 1½	1⅝ - 1½	1⅝ - 1½	2⅛ - 1⅞
Canadian Dollar	4⅞ - 4¾	4⅞ - 4¾	5⅛ - 5	5⅛ - 5	5⅜ - 5¼	5⅝ - 5½
US Dollar	5⅞ - 5⅝	5⅝ - 5½	5⅝ - 5½	5⅝ - 5½	5⅝ - 5⅝	5⅝ - 5½
Italian Lira	5 - 4½	5⅛ - 4⅞	4⅞ - 4¾	4⅝ - 4½	4⅜ - 4¼	4¼ - 4⅛
Japanese Yen	⅝ - ½	⅝ - ½	⅝ - ½	¾ - ⅝	⅞ - ¾	⅞ - ¾
Asian $Sing	6⅝ - 6½	6⅝ - 6½	5⅞ - 4⅞	7⅛ - 6⅞	5⅝ - 5⅜	6⅝ - 6⅛

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.42	96.435	+0.010	96.425	96.415	6,283	49,012
Dec	96.26	96.300	+0.045	96.260	96.215	5,494	76,184

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.450	96.460	+0.010	96.470	96.445	70894	409725
Dec	96.245	96.275	+0.035	96.280	96.245	83397	322117
Mar	96.175	96.225	+0.050	96.245	96.175	48511	470137
Jun	96.073	96.135	+0.060	96.150	96.070	46440	230108

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Aug		96.550	+0.005			0	0
Sep		96.510	+0.010			0	0

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.410	95.380	-0.030	95.410	95.360	24789	190268
Dec	96.160	96.170	+0.020	96.180	96.150	15877	167145
Mar	96.180	96.210	+0.050	96.230	96.170	8415	230174
Jun	96.070	96.120	+0.050	96.130	96.050	2915	56642

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	98.130	98.190	+0.080	98.200	98.110	22121	79705
Dec	97.930	98.000	+0.090	98.020	97.910	21725	47304
Mar	97.840	97.910	+0.090	97.930	97.820	4855	27282
Jun	97.700	97.780	+0.090	97.790	97.690	2220	20136

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		99.18	-0.08			0	n/a
Dec		99.19	-0.07			0	n/a
Mar		99.20	-0.08			0	n/a

* LIFFE futures also traded on APT

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.910	95.920	+0.015	95.925	95.905	723	16840
Dec	96.205	96.220	+0.030	96.225	96.205	182	7587
Mar	96.185	96.220	+0.050	96.185	96.185	49	4778
Jun	96.085	96.130	+0.060	96.085	96.085	28	1975

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
95375	0.085			0.080		
95500	0.040	0.675	0.720	0.160	0.005	0.010
95625	0.020			0.265		

Est. vol. total, Calls 11793 Puts 8372. Previous day's open int., Calls 113172 Puts 120627

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Aug 11		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.48	16.26	4.851	1.932	4784	5.468	20.70	496.1	411.6	22.16	4.053	1.668	4.141	2.723	400.7	2.459
Denmark	(DKr)	54.12	10	8.801	2.625	1.045	2589	2.960	11.20	268.5	222.8	11.99	2.194	0.903	2.241	1.474	216.9	1.331
France	(FFr)	61.50	11.36	10	2.983	1.188	2942	3.363	12.73	305.1	253.1	13.63	2.493	1.025	2.547	1.675	246.4	1.512
Germany	(DM)	20.62	3.809	3.352	1	0.398	986.3	1.127	4.268	102.3	84.86	4.568	0.836	0.344	0.854	0.561	82.60	0.507
Ireland	(I£)	51.77	9.565	8.418	2.511	1	2477	2.831	10.72	256.8	213.1	11.47	2.098	0.863	2.144	1.410	207.4	1.273
Italy	(L)	2.090	0.386	0.340	0.101	0.040	100	0.114	0.433	10.37	8.604	0.463	0.085	0.035	0.087	0.057	8.375	0.051
Netherlands	(Fl)	18.29	3.379	2.974	0.887	0.353	874.9	1	3.786	90.73	75.28	4.052	0.741	0.305	0.757	0.498	73.27	0.450
Norway	(NKr)	48.31	8.926	7.855	2.343	0.933	2311	2.642	10	239.7	198.9	10.70	1.958	0.806	2.001	1.316	193.6	1.188
Portugal	(Es)	20.16	3.724	3.277	0.978	0.389	964.2	1.102	4.172	100	82.97	4.466	0.817	0.336	0.835	0.549	80.76	0.496
Spain	(Pta)	24.29	4.489	3.950	1.178	0.469	1162	1.328	5.029	120.5	100	5.383	0.985	0.405	1.006	0.662	97.34	0.597
Sweden	(SKr)	45.13	8.339	7.339	2.189	0.872	2159	2.468	9.342	223.9	185.8	10	1.829	0.753	1.869	1.229	180.8	1.110
Switzerland	(SFr)	24.67	4.558	4.011	1.197	0.477	1180	1.349	5.107	122.4	101.5	5.466	1	0.411	1.022	0.672	98.84	0.607
UK	(£)	59.97	11.08	9.751	2.909	1.158	2869	3.279	12.41	297.5	246.9	13.29	2.431	1	2.488	1.633	240.3	1.475
Canada	(C$)	24.15	4.462	3.927	1.171	0.466	1155	1.320	4.998	119.8	99.40	5.350	0.979	0.403	1	0.658	96.75	0.594
USA	($)	36.72	6.785	5.972	1.781	0.709	1757	2.008	7.602	182.2	151.2	8.137	1.489	0.612	1.521	1	147.1	0.903
Japan	(Y)	24.96	4.611	4.058	1.211	0.482	1194	1.365	5.166	123.8	102.7	5.530	1.012	0.416	1.034	0.680	100	0.614
Ecu	-	40.67	7.514	6.613	1.973	0.786	1946	2.224	8.418	201.8	167.4	9.011	1.648	0.678	1.684	1.107	162.9	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.5643	0.5624	-0.0019	0.5647	0.5604	13,638	104,929
Dec	0.5656	0.5656	-0.0016	0.5656	0.5647	10	806
Mar	-	0.5687	-	-	-	62	70

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6873	0.6820	-0.0055	0.6880	0.6818	13,494	144,503
Dec	0.6955	0.6906	-0.0059	0.6965	0.6906	38	3,222
Mar	0.7008	0.7015	-0.0040	-	-	1	1,918

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6710	0.6745	+0.0032	0.6746	0.6698	4,357	63,017
Dec	0.6799	0.6798	+0.0023	0.6810	0.6794	71	550
Mar	-	0.6865	+0.0031	0.6865	-	5	16

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.6322	1.6316	-0.0008	1.6328	1.6258	5,860	40,255
Dec	1.6230	1.6230	-0.0018	1.6240	1.6220	57	853
Mar	1.6140	1.6140	-0.0038	1.6150	1.6140	3	3

UK INTEREST RATES

LONDON MONEY RATES

Aug 11	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	8¼ - 6¼	7⅝ - 7⅜	7⅞ - 7¾	7¾ - 7⅝	7¾ - 7⅝	7⅝ - 7½
Sterling CDs	-	-	7⅞ - 7¾	7¾ - 7⅝	7¾ - 7⅝	7⅝ - 7½
Treasury Bills	-	-	7⅝ - 7½	7⅝ - 7½	-	-
Bank Bills	-	-	7⅝ - 7½	7⅝ - 7½	7⅝ - 7½	-
Local authority deps.	7⅝ - 7	7⅝ - 7½	7⅝ - 7½	7⅝ - 7½	7⅝ - 7½	7⅝ - 7½
Discount Market deps	7⅝ - 7½	7⅝ - 7½	-	7⅝ -	-	-

UK clearing bank base lending rate 7½ per cent from Jun 4, 1998

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Aug 7 7.1969pc. ECGD fixed rate Stlg. Export Finance. Make up day Jul 31, 1998. Agreed rate for period Aug 26, 1998 to Sep 22, 1998, Scheme III 9.06pc. Reference rate for period Jul 1, 1998 to Jul 31, 1998, Schemes IV & V 7.811pc. Finance House Base Rate 8pc from Aug 1, 1998.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	92.330	92.320	-0.010	92.350	92.300	27213	180229
Dec	92.490	92.460	-0.020	92.510	92.450	44261	175498
Mar	92.720	92.700	-0.005	92.750	92.690	49178	133038
Jun	92.970	92.950	-	93.010	92.940	36796	158786
Sep	93.200	93.180	+0.015	93.220	93.160	17040	105823

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
92250	0.100	0.280	0.525	0.030	0.070	0.075
92375	0.030			0.085		
92500	0.005	0.125	0.340	0.185	0.165	0.140
92625	0			0.305		
92750	0	0.055	0.195	0.430	0.345	0.245
92875	0			0.555		

Est. vol. total, Calls 22495 Puts 17390. Previous day's open int., Calls 573675 Puts 422578

BASE LENDING RATES

	%		%		%
Adam & Company	7.50	Exeter Trust Limited	8.50	●Smith & Williamson	7.50
Allied Irish Bank (GB)	7.50	Financial & Gen Bank	9.00	Sun Bank	7.50
●Henry Ansbacher	7.50	●Robert Fleming & Co	7.50	TSB	7.50
Banco Bilbao Vizcaya	7.50	Habib Bank AG Zurich	7.50	United Bank of Kuwait	7.50
Bank of Cyprus	7.50	●Hambros Bank	7.50	Unity Trust Bank Plc	7.50
Bank of Ireland	7.50	Heritable & Gen Inv Bk	7.50	Whiteaway Laidlaw	7.50
Bank of India	7.50	C. Hoare & Co	7.50	Yorkshire Bank	7.50
Bank of Scotland	7.50	Hongkong & Shanghai	7.50		
Barclays Bank	7.50	Investec Bank (UK) Ltd	7.50	● Members of London Investment Banking Association	
Brit Bk of Mid East	7.50	Julian Hodge Bank	7.50		
●Brown Shipley & Co Ltd	7.50	●Leopold Joseph & Sons	7.50		
Citibank NA	7.50	Lloyds Bank	7.50		
Clydesdale Bank	7.50	Midland Bank	7.50		
The Co-operative Bank	7.50	NatWestminster	7.50		
Coutts & Co	7.50	●Rea Brothers	7.50		
Cyprus Popular Bank	7.50	Royal Bk of Scotland	7.50		
Duncan Lawrie	7.50	Scottish Widows Bank	7.50		
		●Singer & Friedlander	7.50		

EMS EUROPEAN CURRENCY UNIT RATES

Aug 11	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	357.000	326.452	+0.098	-8.56	8.99	57
Ireland	0.796244	0.784278	+0.001031	-1.50	1.19	10
Italy	1957.61	1943.07	+1.05	-0.74	0.41	5
Spain	168.220	167.132	+0.082	-0.63	0.30	4
Portugal	202.692	201.568	+0.168	-0.55	0.22	4
Denmark	7.54257	7.50250	+0.00349	-0.53	0.20	4
France	6.63186	6.60347	+0.00346	-0.43	0.09	4
Belgium	40.7844	40.6147	+0.0218	-0.42	0.08	3
Austria	13.9119	13.8575	+0.0089	-0.39	0.06	3
Germany	1.97738	1.96954	+0.00105	-0.40	0.06	4
Finland	6.01125	5.98833	+0.00316	-0.38	0.05	3
Netherlands	2.22799	2.22052	+0.00066	-0.34	0.00	2
NON ERM MEMBERS						
UK	0.653644	0.675591	-0.002317	3.36	-3.57	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. 19/3/98: Drachma joined ERM & Punt revalued by 3%. Other central rates adjusted. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Aug	Sep	Oct	PUTS Aug	Sep	Oct
1.620	1.54	2.04	2.51	0.07	0.64	1.46
1.630	0.73	1.42	1.91	0.21	1.01	1.92
1.640	0.22	0.95	1.46	0.71	1.59	2.51

Previous day's vol., Calls 39 Puts 13. Prev. day's open int., Calls 1,243 Puts 18,568

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Aug	Sep	Oct	PUTS Aug	Sep	Oct
0.555	1.25	-	-	-	0.11	0.23
0.560	0.77	1.06	-	0.02	0.19	0.37
0.565	0.37	0.72	1.02	0.07	0.34	0.53

Previous day's vol., Calls 41 Puts 0. Prev. day's open int., Calls 3,600 Puts 10,428

■ THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.33	94.36	+0.03	94.34	94.33	31,927	448,763
Dec	94.35	94.39	+0.04	94.36	94.33	48,685	396,838
Mar	94.43	94.50	+0.06	94.45	94.42	86,993	368,979

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	95.10	95.15	+0.09	95.16	95.10	342	4,371
Dec	95.20	95.25	+0.10	95.26	95.20	15	267
Mar	-	95.14	-	95.20	-	1	12

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Aug	Sep	Oct	Dec	PUTS Aug	Sep	Oct	Dec
96375	0.090	0.100			0.005	0.015		
96500	0.010	0.015	0.010	0.015	0.050	0.055	0.235	0.240
96625	0	0.005			0.165	0.170		
96750	0	0	0.005	0.005	0.290	0.290	0.480	0.480

Est. vol. total, Calls 15235 Puts 9217. Previous day's open int., Calls 333582 Puts 415798

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
98250	0.050	0.060	0.085	0.110	0.310	0.425
98375	0.020			0.205		

Est. vol. total, Calls 500 Puts 2. Previous day's open int., Calls 23030 Puts 8454

FRF 1,000,000,000
CARIPLO
Floating Rate Depositary Receipts of 1997/2002
XS0078850830

Interest Rate 3.6625%
Interest Period August 10, 1998
November 09, 1998
Interest Amount due on November 09, 1998 per
FRF 100,000 FRF 925.80
BANQUE GÉNÉRALE DU LUXEMBOURG
Agent Bank

FOREIGN BORROWING

Athens allows bigger deals in drachma

Small US oil producers in crisis warning on fall in world prices

Independent well owners are demanding tax relief and other assistance, such as help with transport costs to enable them to keep going, writes **Tony Walker**

"I'm a has been, but I guess that's better than being a never have been," says Jim Brock, standing in the shimmering desert heat beside his cluster of oil wells whose financial returns are diminishing by the day.

It was not long ago that Mr Brock was riding high, with his own Learjet, ranch, *big house and wild game* park. Now, as a "stripper" producer – one who produces a few barrels a day – he is barely surviving the downturn in oil prices.

In the mid-1980's he was the 130th largest independent producer in the US and dreamed of $100 a barrel oil. That proved a mirage, with oil reaching $40 before sliding back under the weight of world recession and Opec over-production.

These days, producers such as Mr Brock hope the price will limp back up to $18 a barrel and provide a reasonable return for small operators, who account for about 1m barrels of US daily consumption of 6.3m barrels. The US imports about 54 per cent of its requirements.

The Independent Petroleum Association of America (IPAA) has warned of a "crisis" for the US if the small producers, who operate 500,000 marginally economic wells across the country, are driven to the wall.

"America stands to lose its true strategic petroleum reserve if action isn't taken soon to provide relief from devastating low oil prices," says George Yates, chairman of the IPAA. Mr Yates has *shut down his own wells in* New Mexico because of low prices of $11-12 a barrel.

"In real terms, oil prices have dropped to levels not seen since the 1930s," he says. "Profit from 500,000 marginal wells, which produce on average less than 2.2 barrels of oil per day, has completely evaporated."

Independent producers are demanding tax relief and other assistance, such as help with transport costs to enable them to keep going.

In Midland, headquarters of producers in the Permian basin, a 100 square mile area which accounts for 17 per cent of reserves in North America, *excluding Alaska*, the mood is pessimistic.

Paul Morris, president of the Permian Basin Petroleum Association, says the situation is "extremely critical" and that a plummeting number of rigs involved in searching for oil is a barometer of bad times. The number of active rigs in the Permian Basin is down by 25 per cent in the past month alone.

The low oil price is also hurting companies that service the oil sector. In the mid-1990s the Permian Basin had 20 active drilling companies: now the there are three or four survivors.

Mr Morris, chief executive officer of Wagner and Brown, one of Texas's larger independent producers, said it had cut exploration in Texas by 50 per cent.

Harry Spannaus, vice-president of Pioneer Natural Resources, a large independent producer, likened the oil and gas market to an escalator that is constantly moving up and down. "There's never any stability," he says. "We have no control over pricing: we're simply at the mercy of world demand."

Survivors of the 1986 crash say the *price squeeze* this time is not as severe, but they also say it is early in the cycle and there is no early prospect of relief.

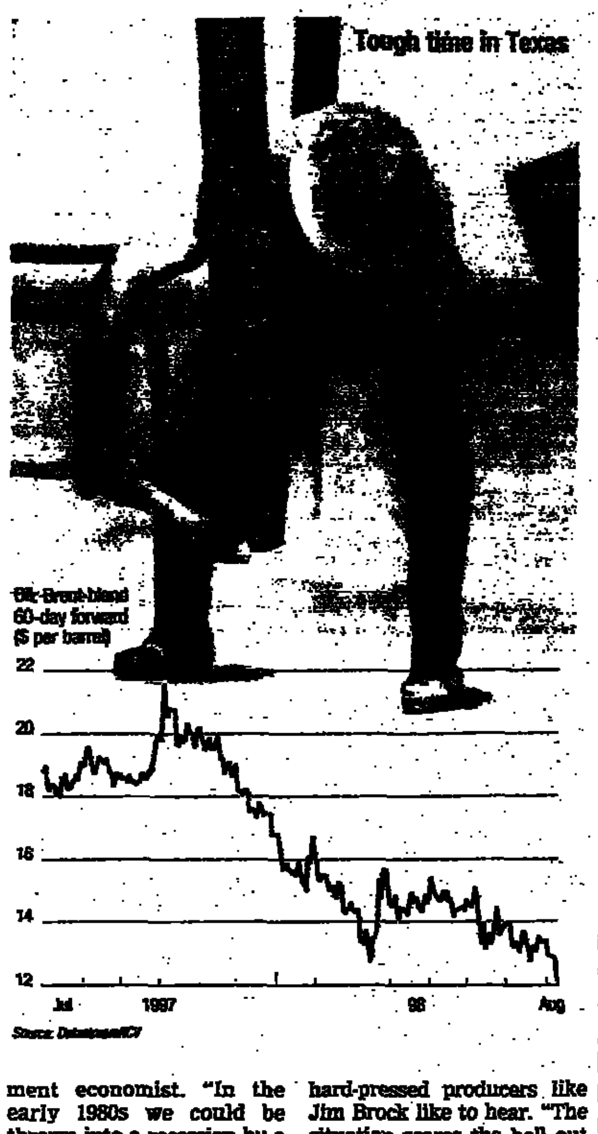
John Pitts, editor of the Permian Basin Oil and Gas Report, estimates that, with a drop of $7.50 a barrel from last November until August this year, Permian basin producers are $7.3m a day worse off than they were nine months ago, assuming daily production of 975,000 barrels. Taken over a whole year, that amounts to about $2.5bn in lost revenue from less than a year ago.

However, US oil producers ruefully acknowledge that their plight does not attract much sympathy in Washington, or even in Austin, the Texas capital. Low oil prices have helped hold inflation down, benefiting transport and other oil-dependent sectors.

Texas was much more dependent on oil in the mid-1980s when it contributed 18 per cent to the state's output and 5 per cent to employment. Now oil's contribution to output is about 7 per cent and to jobs 2 per cent. Texas-based high-technology companies, such as Dell, Compaq and Texas Instruments, contribute more to Texas' exports than oil.

"We're getting pretty darn close to the *break-even* point, where Texas benefits more from low oil prices than high oil prices," says Gary Preuss, a Texas government economist. "In the early 1980s we could be thrown into a recession by a drop in oil prices. And that's no longer true."

This is hardly the message hard-pressed producers like Jim Brock like to hear. "The situation scares the hell out of me because *I* don't have anything else to go to," he says.



Crude oil at lowest for 10 years

MARKETS REPORT

By Kenneth Gooding and Paul Solman

Oil prices fell to their lowest for 10 years yesterday as widespread concerns about the present glut of crude and petroleum products deepened.

The global benchmark Brent blend contract *for* September delivery dropped to $11.55 a barrel in early London trading, not far above the lowest price ever recorded on London's International Petroleum Exchange – $11.30 on October 5 1988.

By the close of trading it had recovered slightly to $11.78, down 13 cents. The Brent price in London has dropped by 81 cents a barrel, or 6.4 per cent, since trading started on Monday.

Philip Cowan, analyst at Credit Lyonnais Rouse, said: "Storage facilities are almost full to the brim while demand keeps on falling and, with investment funds continuing to lean on the market, it is hard to see where the recovery will come from."

He said trading activity was being "dominated by locals" – private investors who use their own money to speculate – while the *speculative funds that orchestrated* the slump in prices on Monday were "taking a back seat".

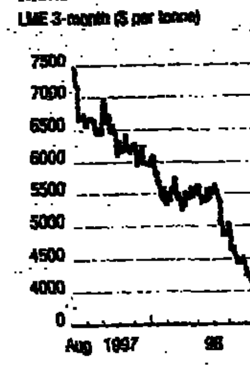
Oil producers have pledged to cut output by 3bn barrels a day but dealers suggested this would not be enough to lift prices.

Russell Hill of OMW, an Australian oil company, said it could take four months to bring stocks to more normal levels if the producer cuts continued at the present rate. "Four months is too far ahead for the market to get excited about."

On the London Metal Exchange, nickel prices fell to 4½ year lows, *with metal* for delivery in three months at US$4,050 a tonne in early trading.

Nick Moore, head of Flemings Global Mining Group, pointed out that Inco, the biggest nickel producer, had disappointed the market by not announcing substantial *cuts* in output in spite of weakening demand in Japan and the rest of Asia and falling prices.

Robin Bhar, analyst at Brandeis (Brokers), said $4,000 a tonne was nickel's last big technical support level. Nickel could slide to $3,600 if the price broke through $4,000, Mr Bhar *said, and then* $3,800. Last night three-month nickel closed on the LME down $45 a tonne, or 1 per cent, at $4,090.



Coffee futures fell on the London International Financial Futures Exchange, reacting to a weak stock market and lack of trader support. The benchmark September contract closed down $63 at $1,618 a tonne.

Colombia said it harvested 1.279m bags of coffee last month, a 35 per cent rise over the same period last year.

Gold price forecast at $200-$300 over five years

By Kenneth Gooding, Mining Correspondent

The gold price will range between $200 and $300 a troy ounce in 1998 dollar terms *during the next five years*, according to Ted Arnold, analyst at Merrill Lynch, the investment bank.

Long-term forecasts of this type are unusual, but Mr Arnold, who said Merrill was asked to produce one for a client, gives some of the rea*soning behind the predic*tions in Merrill's latest Base & Precious Metals Monthly publication.

He suggests prices significantly below $200 an ounce would cause drastic production cuts and even closures.

"It would also spark a considerable volume of investment buying in the west on the view that gold is 'dirt cheap' and should rise in the medium term for a useful *capital gain. Sub-$200 prices* would certainly produce an awful lot of investment buying interest in the price sensitive demand centres of the world: India, the Middle East and Asia."

However, prices substantially above $300 an ounce would encourage disinvestment from these regions and renewed bouts of forward selling by gold producers.

Prices above $300 would *also encourage central banks* to sell much more from their gold reserves. Mr Arnold suggests that, at some point in the next five years, the International Monetary Fund will sell some of its gold reserves.

Mr Arnold, reputed to be one of the market's big "bears", *suggests the* European Central Bank will be a "filter" for other central bank sales. "We are looking at *some 12,000 tonnes of* 'free' central bank gold eventually available for sale to the market."

Other analysts involved in long-term forecasting are not as pessimistic as Mr Arnold. Philip Klapwijk, at the Gold Fields Mineral Services consultancy said that if the dollar remained strong and there were no international political upheavals, $300 an ounce in real terms was "reasonable" but "$200 is excessively bearish. I would be more comfortable with a forecast of $250 to $350."

Looking further ahead, Mr Arnold *suggests* the Asian crisis will stimulate economic reform in the region similar to that in Europe after the second world war, since when French and Germans have progressively sold their gold holdings.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1292-93	1317-18
Previous	1301.5-02.5	1325-26
High/low		1324/1312
AM Official	1290.5-91.5	1315.5-16.5
Kerb close		1320-1
Open int.	285,415	
Total daily turnover	49,956	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1145-55	1165-75
Previous	1150-60	1170-80
High/low		1170/1165
AM Official	1143-44	1165-70
Kerb close		1165-70
Open int.	6,827	
Total daily turnover	712	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	538-9	545-6
Previous	541-2	547-8
High/low		548/542
AM Official	537-38	545-46
Kerb close		545-6
Open int.	37,844	
Total daily turnover	5,888	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4035-45	4100-10
Previous	4070-80	4135-40
High/low		4130/4060
AM Official	4015-20	4070-80
Kerb close		4080-95
Open int.	53,142	
Total daily turnover	24,297	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5760-70	5840-50
Previous	5775-85	5840-45
High/low		5840/5800
AM Official	5725-30	5825-30
Kerb close		5840-50
Open int.	15,074	
Total daily turnover	5,283	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1025.5-26.5	1046-47
Previous	1042.5-43.5	1062.5-63.5
High/low		1049/1034
AM Official	1020-21	1040-40.5
Kerb close		1043-4
Open int.	91,632	
Total daily turnover	27,225	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1593-94	1615-16
Previous	1610.5-11.5	1631.5-32.5
High/low		1625/1606
AM Official	1589-600	1619-19.5
Kerb close		1615-6
Open int.	169,620	
Total daily turnover	63,438	

■ LME AM Official £/$ rate: 1.6330
LME Closing £/$ rate: 1.6320

Spot: 1.6299 3 mths: 1.6221 6 mths: 1.6143 9 mths: 1.6076

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	71.70	-1.35	72.45	71.70	205	1,298
Sep	71.85	-1.30	73.40	71.70	4,132	20,858
Oct	72.15	-1.30	73.00	72.00	76	2,152
Nov	72.45	-1.15	72.90	72.45	14	1,588
Dec	72.75	-1.20	74.00	72.60	998	14,076
Jan	73.10	-1.15	74.00	73.00	30	1,855
Total					5,671	57,914

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz)	$ price	£ equiv	SFr equiv
Close	284.50-285.00		
Opening	285.50-285.80		
Morning fix	284.50	174.411	425.326
Afternoon fix	284.80	174.156	423.782
Day's High	285.50-285.80		
Day's Low	283.00-283.30		
Previous close	285.10-285.60		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.82	6 months	4.12
2 months	4.72	12 months	4.09
3 months	4.67		

Silver Fix	p/troy oz.	US cts equiv.
Spot	318.53	520.00

Silver Lending Rates

1 month	3.00	6 months	1.50
2 months	2.50	12 months	1.25
3 months	2.25		

Gold Coins	$ price	£ equiv.
Krugerrand	287-291	176-178
New Sovereign	66-70	40-43

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	284.5	-3.3	285.7	284.3	209	1,379
Oct	285.8	-3.4	288.4	285.5	1,415	11,285
Dec	288.0	-3.3	291.8	287.3	22,066	102.2k
Feb	289.8	-3.4	291.0	289.5	225	13,789
Apr	291.7	-3.5	293.0	293.0	465	9,176
Jun	293.6	-3.5	295.5	294.0	310	12,820
Total					24,563	183,638

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	377.1	-4.4	378.7	376.1	357	8,932
Jan	377.4	-4.4	380.0	377.0	13	846
Apr	377.4	-4.4	-	-	1	22
Jul	377.4	-4.4	-	-	14	3
Total					370	9,895

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	292.00	-2.50	293.00	288.00	136	2,772
Dec	282.50	-2.50	284.00	284.00	2	1,043
Mar	277.50	-2.50	280.00	280.00	-	23
Total					138	3,838

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	517.8	-13.2	533.5	514.0	5,390	37,888
Dec	521.6	-13.2	537.5	518.5	819	27,288
Jan	523.1	-13.2	525.0	525.0	-	28
Mar	523.6	-13.2	528.0	520.0	48	5,545
May	525.3	-13.1	533.0	525.0	16	1,710
Jul	527.0	-12.9	533.0	529.0	44	2,531
Total					6,262	80,354

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	12.83	-0.22	13.09	12.56	70,219	108.8k
Oct	13.21	-0.20	13.42	12.95	32,518	74,076
Nov	13.61	-0.16	13.79	13.37	6,653	38,047
Dec	13.92	-0.16	14.10	13.75	8,801	50,474
Jan	14.27	-0.08	14.36	14.05	4,746	33,583
Feb	14.50	-0.11	14.61	14.35	895	18,457
Total					133,022	489,778

■ CRUDE OIL IPE ($/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	11.67	-0.24	12.02	11.55	20,029	45,205
Oct	11.93	-0.26	12.25	11.85	26,851	59,184
Nov	12.39	-0.31	12.60	12.24	6,241	21,489
Dec	12.60	-0.31	12.90	12.59	5,435	36,623
Jan	12.83	-0.28	13.21	12.83	1,766	28,970
Feb	13.10	-0.21	13.26	13.07	1,520	18,105
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	33.95	-0.49	34.60	33.50	15,269	47,082
Oct	35.75	-0.23	36.08	35.10	6,355	27,441
Nov	37.60	-0.08	37.90	37.00	1,118	17,833
Dec	39.30	-0.08	39.65	38.80	1,555	25,258
Jan	40.80	+0.12	40.80	40.10	1,557	23,860
Feb	41.80	+0.22	41.80	41.20	1,126	14,897
Total					29,967	85,387

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	99.75	-5.50	103.50	99.50	12,522	12,803
Sep	104.25	-5.00	107.50	103.75	13,928	33,546
Oct	109.75	-4.50	112.25	109.00	2,586	21,271
Nov	114.00	-4.00	116.25	113.50	2,200	14,304
Dec	117.50	-4.25	120.00	117.00	2,958	35,338
Jan	120.50	-4.25	123.00	120.25	858	12,427
Total					37,890	168,729

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	10.800	+0.500	10.850	10.400	510	2,570
Oct	11.500	+0.240	11.550	11.350	110	3,485
Total					1,296	23,326

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	1.800	-0.085	1.830	1.780	23,182	53,279
Oct	1.840	-0.088	1.867	1.830	7,171	32,625
Nov	2.135	-0.073	2.230	2.120	2,824	24,418
Dec	2.425	-0.053	2.500	2.420	1,676	25,876
Jan	2.540	-0.048	2.605	2.525	1,165	25,077
Feb	2.450	-0.038	2.500	2.440	825	15,943
Total					38,072	269,197

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	40.20	-0.45	40.80	39.50	17,165	43,089
Oct	40.50	-0.33	40.95	39.80	6,928	20,262
Nov	41.20	-0.70	41.90	40.65	1,806	8,268
Dec	42.05	-0.70	42.50	41.80	533	6,078
Jan	42.50	-1.10	43.10	42.50	232	3,273
Feb	45.00	-	45.50	45.00	53	1,787
Total					26,727	85,387

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	70.25	+1.50	70.00	70.00	21	198
Nov	72.25	+1.50	72.25	71.00	48	3,398
Jan	74.25	+1.50	-	-	-	1,821
Mar	76.25	+1.50	-	-	-	950
May	78.25	+1.50	-	-	-	722
Total					99	7,104

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	253.75	-2.25	256.50	252.50	4,861	40,895
Dec	270.75	-2.00	273.00	268.50	11,687	56,488
Mar	286.25	-2.00	288.00	284.25	1,504	19,338
May	294.50	-2.00	298.00	294.00	68	3,569
Jul	304.25	-2.25	307.00	303.50	378	7,402
Sep	312.50	-1.50	-	-	15	336
Total					18,581	128,031

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	214.00	-0.50	215.50	211.75	15,484	77,807
Dec	222.75	-1.00	224.75	220.25	25,019	157,121
Mar	233.75	-0.50	235.00	231.00	2,817	40,039
May	240.50	-0.75	241.25	238.50	1,190	12,311
Jul	246.00	-0.25	246.50	243.50	1,394	17,001
Sep	249.75	+0.75	249.75	248.25	31	1,734
Total					46,982	312,954

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	69.70	-	-	-	-	41
Nov	72.75	+0.25	-	-	-	905
Jan	74.75	+0.25	74.50	74.50	20	297
Mar	76.80	+0.25	-	-	-	65
May	77.60	+0.25	-	-	-	23
Total					20	1,331

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	565.00	+14.75	567.00	549.00	2,404	2,942
Sep	543.00	+4.50	545.00	533.50	6,053	17,414
Nov	540.25	+0.75	541.75	531.50	24,993	80,886
Jan	551.25	+1.25	552.00	543.50	1,247	11,685
Mar	561.75	+1.25	562.00	555.50	809	10,027
May	569.50	+1.50	572.00	564.50	189	2,744
Total					36,089	134,385

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	23.17	+0.05	23.20	22.97	998	3,022
Sep	23.23	+0.01	23.30	23.02	2,738	27,417
Oct	23.32	+0.03	23.40	23.12	861	16,132
Dec	23.47	+0.06	23.54	23.21	5,482	44,394
Jan	23.61	+0.04	23.63	23.40	726	5,474
Mar	23.74	+0.02	23.80	23.56	330	7,196
Total					11,589	110,884

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	144.2	+4.6	144.5	138.8	2,969	5,814
Sep	140.6	+0.8	141.3	136.6	5,762	25,318
Oct	140.4	+0.1	141.9	138.5	1,771	20,295
Dec	143.6	+0.2	144.8	142.8	7,225	61,922
Jan	146.1	+1.0	146.7	144.1	925	10,647
Mar	149.5	+0.5	150.6	148.3	563	9,517
Total					18,980	141,636

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	80.0	-	-	-	-	3
Mar	112.5	-	-	-	-	-
Apr	166.0	-6.0	173.0	165.0	148	2,249
May	176.0	-6.0	-	-	-	29
Jun	186.0	-6.0	-	-	-	-
Total					148	2,249

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	775	-	780	775	11	259
Oct	881	+6	890	880	18	496
Jan	926	+11	926	926	-	404
Apr	965	+5	-	-	-	200
Jul	855	+5	-	-	-	200
Total					33	1,984

	Close	Prev
BFI	783	788

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	426.00	-	427.00	425.00	27	387
Dec	460.00	-	461.00	456.50	35	225
Total					62	666

FUTURES DATA
All futures data supplied by CMS.

Tea from the Tea Brokers' Association Mombasa. Less demand at progressively easier rates. Brighter BP1s declined 10-30 cents with mediums 10-20 cents easier. Lower mediums eased 5-15 cents with plainer sorts lower. Brighter liquoring and colouory mediums PF1s were 10-95 cents easier. Lighter mediums depreciated 5-18 cents with lower mediums and plainer sorts 5-20 cents easier. Apart from a few selected lines of brighter liquoring teas which were dearer, P dusts and dust 1s were lower. Pakistan packers lent support but the Bazaar and Afghanistan were quiet. There was less enquiry from Egypt and the UK was more selective.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1062	-15	1074	1052	1,976	30,010
Dec	1093	-15	1105	1082	3,202	46,410
Mar	1117	-14	1126	1106	407	41,512
May	1133	-14	1143	1132	32	14,247
Jul	1149	-14	-	-	-	7,941
Sep	1165	-14	1172	1172	505	25,397
Total					6,646	172,235

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1548	-19	1567	1544	5,359	17,271
Dec	1581	-16	1599	1577	3,680	27,248
Mar	1621	-15	1639	1621	988	13,227
May	1648	-14	1668	1647	11	5,641
Jul	1675	-14	-	-	50	1,748
Sep	1701	-14	1715	1715	10	1,677
Total					10,078	73,681

■ COCOA (ICCO) (SDR's/tonne)

Aug 10	Price	Prev. day
Daily	1283.07	1266.36

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1617	-60	1665	1605	2,245	16,385
Nov	1580	-63	1625	1572	1,972	12,317
Jan	1558	-65	1600	1550	100	2,346
Mar	1538	-65	1580	1534	61	1,660
May	1533	-65	-	-	35	250
Jul	1533	-65	-	-	-	82
Total					4,378	33,049

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	124.45	-9.75	133.00	122.50	5,279	11,745
Dec	118.30	-5.30	123.00	118.00	3,518	10,852
Mar	115.25	-3.75	118.50	114.00	355	5,248
May	115.50	-3.40	118.25	115.00	36	2,295
Jul	115.75	-3.15	117.00	115.50	48	1,051
Sep	116.40	-2.85	118.25	117.00	19	1,447
Total					9,211	32,787

■ COFFEE (ICO) (US cents/pound)

Aug 10		Prev. day
Comp. daily	106.19	106.39
15 day average	101.86	101.15

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	253.2	+0.6	253.7	250.6	1,977	21,387
Dec	252.9	+0.5	253.2	250.9	938	5,891
Mar	256.0	+0.5	256.2	253.4	586	7,918
May	259.5	+0.3	259.5	258.7	355	2,005
Aug	263.0	-0.7	262.2	262.2	38	1,320
Oct	262.6	-0.4	262.2	262.2	23	660
Total					3,917	39,185

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	9.53	+0.04	9.42	9.42	208	5,768
Oct	9.05	-0.01	9.11	8.75	16,884	83,267
Mar	9.34	-0.01	9.36	9.15	4,122	41,055
May	9.34	-0.02	9.35	9.21	653	6,760
Jul	9.30	+0.04	9.30	9.11	402	5,817
Oct	9.45	+0.04	9.36	9.36	405	5,486
Total					22,674	149,886

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	71.48	-1.03	71.65	70.20	475	5,026
Dec	70.32	-1.73	71.00	69.10	2,893	37,421
Mar	71.01	-1.31	71.30	70.20	200	15,753
May	71.50	-1.16	71.90	70.80	226	8,031
Jul	72.23	-0.97	72.45	71.20	30	4,414
Total					3,827	77,806

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	106.80	-0.15	107.30	105.00	1,683	13,074
Nov	110.10	-0.10	110.35	109.00	771	5,295
Jan	113.00	-0.15	113.00	112.30	108	2,446
Mar	115.90	-0.10	116.00	115.50	117	1,826
May	118.60	-0.10	-	-	10	684
Jul	121.39	-0.10	121.90	121.90	-	273
Total					2,679	23,611

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Aug 11	Aug 10	month ago	year ago
1545.5	1546.9	1537.8	1911.0

■ CRB Futures (Base: 1967 = 100)

Aug 10	Aug 7	month ago	year ago
205.06	206.99	-	-

■ GSCI Spot (Base: 1970 = 100)

Aug 10	Aug 7	month ago	year ago
141.52	144.12	150.93	194.20

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-1,475	to	464,325
Aluminium alloy	-	to	69,900
Copper	+1,950	to	264,575
Lead	+775	to	112,325
Nickel	-222	to	60,984
Zinc	-825	to	368,950
Tin	-195	to	6,430

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	61.700	-0.825	62.475	61.650	3,558	9,178
Oct	61.525	-0.750	62.200	61.500	5,228	42,335
Dec	62.525	-0.575	63.000	62.350	1,328	15,836
Feb	64.050	-0.350	64.450	63.900	702	10,928
Apr	65.525	-0.775	66.250	65.500	592	4,706
Jun	64.350	-0.450	64.650	64.250	80	961
Total					11,486	85,043

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	51.225	-0.950	51.850	51.175	1,563	3,872
Oct	42.925	-1.600	44.225	42.850	2,705	14,689
Dec	43.250	-1.400	44.300	43.200	738	8,858
Feb	47.825	-1.000	47.800	46.900	263	2,795
Apr	46.400	-0.875	47.500	46.400	16	821
Jun	54.700	-0.800	55.750	54.500	17	370
Total					5,301	31,196

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	62.925	-0.150	64.400	62.050	1,225	1,071
Feb	55.950	-0.750	57.000	55.500	961	2,512
Mar	56.200	-0.500	57.300	58.000	1	14
Total					2,190	3,601

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Sep	Dec	Sep	Dec
1250	65	4	104	16
1300	29	17	71	32
1350	9	47	45	58
■ COPPER (Grade A) LME	Sep	Dec	Sep	Dec
1500	125	3	163	29
1600	49	27	100	64
1700	11	88	58	118
■ COFFEE LIFFE	Sep	Nov	Sep	Nov
1550	73	77	6	47
1600	33	52	16	72
1650	10	36	43	106
■ COCOA LIFFE	Sep	Dec	Sep	Dec
1050	19	70	7	27
1075	6	55	19	37
1100	1	43	39	50
■ BRENT CRUDE IPE	Sep	Oct	Sep	Oct
1200	-	-	-	52
1250	-	43	-	-
1300	-	-	-	-

LONDON SPOT MARKETS

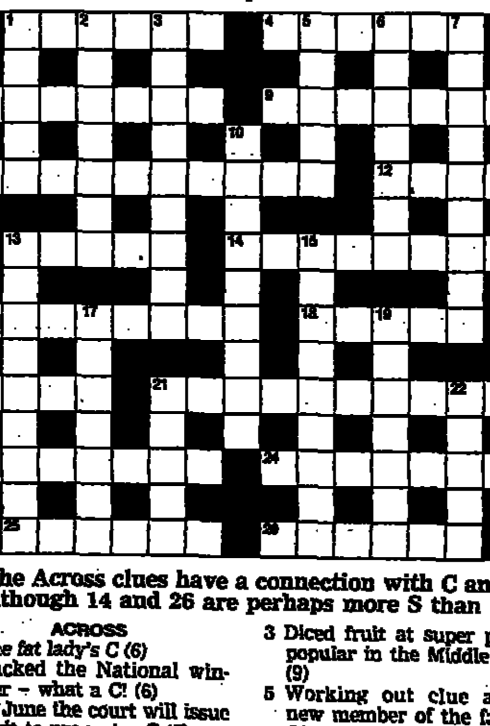
■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$11.62-1.71	-0.265
Brent Blend (dated)	$11.25-1.30	-0.43
Brent Blend (Sep)	$11.85-1.90	-0.48
W.T.I.	$12.84-2.88x	-0.48
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$153-156	-3.5
Gas Oil	$101-104	-4
Heavy Fuel Oil	$60-62	
Naphtha	$120-123	-2
Jet fuel	$110-112	-5.5
Diesel	$110-111	-5
■ NATURAL GAS (Pence/therm)		
Bacton (Sep)	10.75-10.85	+0.45
Petroleum Argus. Tel. London (0171) 359 8792		
■ OTHER		
Gold (per troy oz)♣	$284.75	-0.60
Silver (per troy oz)♣	522.50c	-6.00
Platinum (per troy oz.)	$376.00	-2.00
Palladium (per troy oz.)	$286.00	-3.00
Copper	79.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	23.02r	
Tin (New York)	273.5	
Cattle (live weight)	66.86p	+0.39*
Sheep (live weight)	107.08p	+3.22*
Pigs (live weight)†	48.55p	-2.75*
Lon. day sugar (raw)	$219.70	+2.60
Lon. day sugar (wte)	$266.80	+0.50
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Sep)▼	46.25p	
Rubber (Oct)▼	46.75p	
Rubber (KL RSS No1)	277.00m	-1.00
Coconut Oil (Phil)§	645.0y	-5.0
Palm Oil (Malay.)§	620.0	-5.0
Copra (Phil)§	$395.0y	
Soyabeans (US)	151.0y	
Cotton Outlook 'A' index	58.40	
Wooltops (64s Super)	300p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Aug/Sep. x Sep. ▼London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 3,382 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,758 Set by ADAMANT



All the Across clues have a connection with C and P, although 14 and 26 are perhaps more S than C

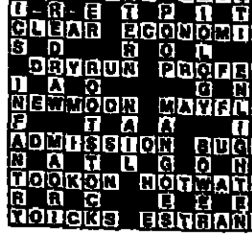
ACROSS

1 *The fat lady's C* (6)
4 Backed the National winner – what a C! (6)
8 In June the court will issue writ to prevent a C (7)
9 P provides firm with outside increase in power (7)
11 In the capital, men had constructed a place of P (6,4)
12 The P line remains (4)
13 Bail possibly granted on one claim of absence from C (5)
14 The S of maturity? (8)
16 Decision before P: no point in just imprisoning director-general and staff (8)
18 One in daily P in America (5)
20 Second banker for C (4)
21 A little work in person transforms place of P (4,6)
23 Verbal P *for hiding* money in the cinders (7)
24 Capital stocks of P (7)
25 Is P by torture alien to C? (6)
26 Came to same conclusion about American S (6)

DOWN

1 For example writer comes *over to* have a good time (5)
2 Try the old city (with friend from France) for fish (7)
3 Diced fruit at super party, popular in the Middle East (9)
5 Working out clue about new member of the family (5)
6 Uncertainty about the French garment (7)
7 One who marries a hospital doctor (9)
10 Money made from writing about the Windsors? (9)
13 Like five (9)
15 Taking the lid off local government finance? (9)
17 Quote the magazine which comes up with an egg-cell (7)
19 Parts of the body are sick – a chopper is outside (7)
21 In former times accepted the university had weight (5)
22 Love to read about having blades (5)

Solution 9,757



OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

Tilney (Ireland) Ltd

IRELAND (REGULATED)(**)

Frank Russell Investments (Ireland) Ltd

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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Offshore Insurances and Other Funds

● FT Citydesk (?) Unit Trust Prices are available over the telephone. Call the FT Citydesk (?) Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	†	552	-21½	646	474	2,707	4.5	11.5
Bulmer (HP)		350xd	—	459½	335	-	5.3	15.2
Burn Stewart	‡	11	—	53½	8½	39	19.3	-
Diageo		669xd	-24	735	432	6,601	3.4	29.2
Glenmorangie A		[illegible]	—	[illegible]	755	-	2.1	20.0
B		907½	—	1050	690	-	0.9	43.7
Highland	†	251½	—	327	247	13	4.5	11.6
5¼pc Cv Sb Bd		86	—	[illegible]	85½	-	6.2	-
Kirin Y		590½	-13	688	476½	-	1.0	-
Matthew Clark	‡	182½xd	-½	288	157	45	8.9	6.2
Merrydown		41½	-1	74½	37½	-	-	Φ
Seagram C$		[illegible]	[illegible]	[illegible]	[illegible]	-	1.4	-

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Continued

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

HOUSEHOLD GOODS & TEXT - Continued

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

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LONDON STOCK EXCHANGE

BP mega-deal fails to halt plunge in equities

MARKET REPORT

By Peter John

What looked like an equity bloodbath yesterday was more a very close shave with a blunt blade.

The news looked pretty bleak. The leading index was down more than 3 per cent as part of a global sell-off. It shrugged off news of what could turn out to be the biggest ever takeover by a UK-listed company.

But traders and strategists all said they had seen little genuine heavyweight selling and many remained convinced that once the big investment institutions were back in gear after the summer holidays the buyers would return.

Although the *FTSE 100* index ended the day 154.8 down at 5,432.8, the head dealer at one broker said: "I think at this stage it is just a buyers' strike.

"Everybody is so bearish at the moment. There is cash available and people want to buy the market. But there is so much uncertainty that people are sitting on their hands," he added.

London was always heading lower. It opened in the wake of heavy falls in Japan and Hong Kong.

The currency markets registered their lack of confidence in Japan's new administration and the yen dropped to its lowest level against the dollar for eight years.

Footsie was quoted down 30 points after the pre-market index was calculated and by lunchtime it was off 184 points. At that stage, it was showing a slide of more than 12.5 per cent since the peak just over three weeks ago.

The net slide represented the biggest one-day points drop since October last year, and was one of the heaviest points declines ever. However, in percentage terms, the fall was just 2.8 per cent, compared with the 12.2 per cent suffered in one session during the crash of October 1987.

News that BP plans to take over Amoco to create a $110bn company gave a brief fillip and Footsie clawed back 80 points very quickly.

However, arbitrageurs selling BP to buy Amoco as a cheap way into the deal eroded the gains in BP and undermined any prospect of a general recovery.

Moreover, the Dow Jones *Industrial Average* was down more than 200 points during the last hour of the UK trading session.

Most of the weakness in London sprang from selling in the derivatives market, where Footsie futures traded *at a small but persistent discount* to their estimated fair value throughout the day.

"That suggested people *were looking to sell equity* risk rather than offload shares," said Ian Scott of Lehman Brothers, who remains convinced that Footsie can return to 6,400 by the end of the year.

On the other hand, the *selling affected* all areas of the market. The FTSE 250 index fell 102 points to 5,202.3 and the SmallCap 37.9 *to 2,367.7.*

Turnover by 6pm appeared unusually heavy at 941m shares. Nevertheless, once *the 180m shares traded in BP* and Shell Transport were stripped out, the underlying volume was not excessive.

Because of the heavy trade in the oil leaders, it was weighted firmly in favour of Footsie stocks, which accounted for nearly 60 per cent of the day's total.

Takeover boost for BP

COMPANIES REPORT

By Joel Kibazo and Martin Brice

Heavy technical trading in a single stock overshadowed the overall decline in the stock market as traders reacted to the shock announcement of British Petroleum's planned takeover of US oil giant Amoco.

The surprise £30.3bn deal to create a company capitalised at $110bn was unveiled as some dealers took a lunchtime breather to enjoy the London sunshine, briefly helping to reduce the decline on a tumbling equity market.

Within an hour of the announcement, the shares *were testing the 900p level as* traders scrambled for stock. But that appetite waned by mid-afternoon after dealers *spotted the arbitrage opportunities* and took advantage of the price anomalies between BP's offer and Amoco's *underlying price.*

As arbitrageurs sold BP, the shares retreated from their peak to close only 22 ahead at 795p. Turnover of 131m accounted for 14 per cent of the market's total volume.

Sector specialists were euphoric. John Toalster at SG Securities said: "BP had run out of steam before the announcement of the proposed merger. This will provide it with a new lease of life and create a credible challenge to both Shell and Exxon."

Jeremy Elden at Commerzbank also welcomed the deal and *said: "This is bad news* for a company like Shell which had size to fall back on in the past."

In the rest of sector, news of the deal hit Shell and the shares fell 19¼ to 347½p after trade of 47m. Burmah appreciated 5 to £10.55.

Chemical group BOC rose *in response to its announce*ment of restructuring and cost-saving moves in its nine-month results before coming back with the market. It had previously hinted at restructuring and the initial strong share price rise displayed the positive response from investors.

For most of the day, the *stock was one of the few* Footsie companies to show an advance, up 38p at best. But as the market chalked up larger declines in late trading, BOC shares were caught in the general fall and ended down 4 at 736p.

Guy Phillips at SG Securities moved from "hold" to "buy". He said the results were about 4 per cent above expectations, the restructuring was "very convincing" and the shares were likely to recoup some of their 45 per cent underperformance of the FTSE All-Share in the past year.

There was relief in the market after retailer Kingfisher said it was considering an alliance with French retailer *Castorama*, rather than a takeover bid.

Kingfisher confirmed it was in talks with the French *do-it-yourself chain* but said the discussions "do not envisage an offer for Castorama shares." The shares *held steady at 473½p after* trade of 4.9m.

Strategists believe a link with Castorama to be a *move in the right direction* for Kingfisher but had been nervous about the group having to fund such a takeover through a rights issue.

Earlier this year, Kingfisher held talks about a possible merger with supermarket group Asda, 6 off at 186p. Volume was 16m.

Insurance giant CGU, formed from the merger of Commercial Union and General Accident, tumbled 79 to £10.45 in nervous trading ahead of today's interim figures. Analysts expect a sharp drop in profits to between £280m and £290m, well below £498m achieved a year ago.

Sector specialists indicated they expect the *company* to report a sharp decline at its general insurance unit due to large weather-related *claims over the last six* months.

Sedgwick which reported interim figures was among the *few stocks that moved* ahead. They closed 2 up at 158p while life assurance group Sun Life & Provincial *fell 46 to 508p.*

Banks were hit hard by the market slide. Bank of Scotland fell 45 to 607p, while *Royal Bank of Scotland* surrendered 70 to 910p. Among banks heavily exposed to Asia, Standard Chartered fell 44 to 593p and HSBC 89 to £12.60.

IT stocks suffer

Leading information technology stocks suffered more than the general market decline, with Sage off 90 at £14.35, Admiral 77½ at £12.42½ and FI 100 to £17.25.

"Take profits" advice on CMG from Granville saw the stock lose 60 to £18.65. Research from Ian Spence at the broker said: "On nearly 90 times 1998 earnings, any upgrades are in the price."

On-line information company Dialog, which changed its name from MAID in November, rose 12½ to 185p after announcing a five-year contract with the BBC, worth £4m to £5m. Sentiment was also helped by Dresdner Kleinwort Benson putting a 300p target price. It said earnings per share were expected to grow from 10.6p to 21.7p by 2000.

British Airways fell in reaction to earlier first-quarter results and concern over a possible delay to its planned merger with American Airlines. The stock was down almost 9 per cent or 48 at 509p as 6.5m were traded.

The figures have prompted downgrades on the current full-year forecasts from a consensus of about £645m to nearer £600m and to a figure of about £680m for next year.

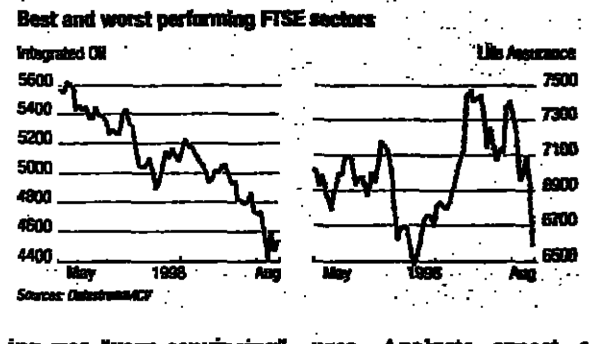
But remarks from EU competition commissioner Karel van Miert prompted fears of a confrontation with the UK government over the fate of landing and take-off slots at Heathrow and Gatwick, *which could delay any* merger.

A downgrade by Teather & Greenwood in Blue Circle *put the broker at the lower* end of forecasts for the full year. David Taylor at the broker moved from a pre-tax forecast of £340m to £325m, and told clients: "Blue Circle's strategic vision seems distinctly blurred and we think it has hard lessons to learn on focus." The shares were off 3 at 328p.

Headlam, the SmallCap floor coverings company, exceeded the most bullish forecasts as it unveiled a 30 per cent pre-tax advance and showed it had escaped the problems suffered by Allied Carpets and Carpetright.

The shares advanced 2½ in early trading but ended the day off 2½ at 300p. The company talked of "a more challenging sales environment" but made a bullish trading statement. Carpetright was unchanged at 264½p. For the second day running, it announced a buy-back, this time of 305,000 shares at 262p.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Aug 11	Aug 10	Aug 7	Aug 6	Aug 5	Yr ago	*High	*Low
FT 30	3503.2	3587.7	3662.1	3610.3	3619	3185.2	3984.9	3486.8
Ord. div. yield	3.09	3.01	2.95	2.98	2.98	3.45	4.22	2.72
P/E ratio net	21.72	22.30	22.76	22.47	22.52	18.74	25.41	15.80
P/E ratio nil	21.54	22.21	22.67	22.37	22.43	18.55	25.19	15.71

FT 30 since compilation: high 3920.3 11/05/98 low 49.4 26/06/40 Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3587.7	3550.9	3552.6	3524.1	3519.7	3527.0	3518.4	3490.7	3587.7	3486.8

STOCK MARKET TRADING DATA

	Aug 11	Aug 10	Aug 7	Aug 6	Aug 5	Yr ago
SEAQ bargains	65,094	49,757	55,494	61,620	71,888	49,231
Equity turnover (£m)†	-	2626.2	2888.3	2989.3	n/a	2986.9
Equity bargains†	-	39,835	43,074	47,309	n/a	50,030
Shares traded (m)†	-	646.3	703.2	726.3	n/a	869.0
Total market bargains‡	-	49,642	56,666	62,402	n/a	-
Total turnover (£m)‡	-	3405.1	4034.1	4369.5	n/a	-
Total shrs traded (m)‡	*907.8	796.1	932.5	989.9	n/a	-
Tradepoint turnover (£m)	28.2	13.9	14.1	29.0	74.8	0.8
Tradepoint shrs traded(m)	11.3	4.5	6.0	9.7	15.6	0.1

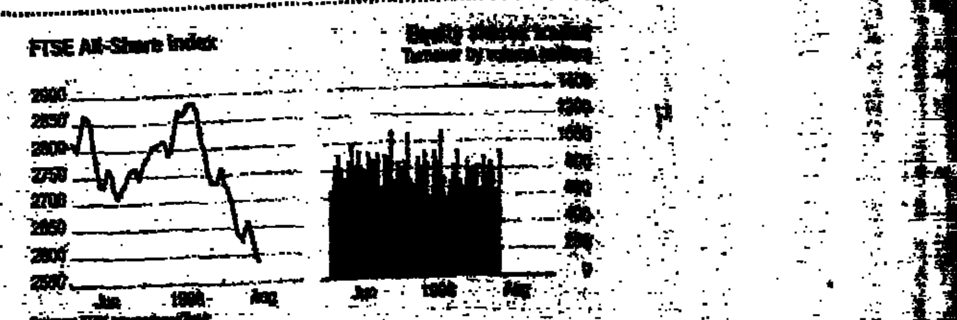
†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	151	Total Highs	24	Total contracts	n/a
Total Falls	1,822	Total Lows	320	Calls	n/a
Same	1,017			Puts	n/a

Aug 11 *Data based on Equity shares listed on the London Share Service.

FTSE All-Share Index



Source: FTSE International/Reuters

Indices and ratios

Best performing sectors

1 Property
2 Gas Distribution
3 Distributors
4 Media
5 Oil Exploration & Prod

Worst performing sectors

FUTURES AND OPTIONS

LONDON RECENT ISSUES: EQUITIES

RIGHTS OFFERS

FTSE GOLD MINES INDEX

	Aug 10	% chg on day	Aug 7	Year ago	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index(28)	891.90	-0.3	894.34	1443.24	[illegible]	[illegible]	[illegible]	[illegible]
Regional Indices								
Africa (10)	993.92	-0.2	996.29	1443.43	[illegible]	[illegible]	[illegible]	[illegible]
Australasia (7)	1005.55	-0.2	1007.48	1469.32	[illegible]	[illegible]	[illegible]	[illegible]
Americas (11)	842.53	-0.3	844.95	1465.91	[illegible]	[illegible]	[illegible]	[illegible]

Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices ... closed 10/8/98. South Africa.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Aug 11	Day's chge%	Aug 10	Aug 7	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5432.8	-2.8	5587.6	5680.4	5075.8	3.07	2.60	1.95	20.91	99.96	2385.22
FTSE 250	5202.3	-1.9	5304.7	5323.0	4700.4	3.17	2.68	1.98	19.87	89.65	2238.94
FTSE 250 ex Inv Tr	5253.9	-1.9	5355.7	5367.2	4699.2	3.27	2.77	2.04	18.73	93.12	2270.18
FTSE 350	2626.4	-2.6	2696.9	2735.1	2438.0	3.09	2.62	1.95	20.71	47.72	2356.83
FTSE 350 ex Inv Tr	2630.7	-2.6	2701.5	2739.9	2438.9	3.10	2.63	1.97	20.49	48.11	1210.91
FTSE 350 Higher Yield	2565.2	-3.0	2644.2	2690.9	2318.7	4.14	3.51	1.88	16.08	58.44	1958.35
FTSE 350 Lower Yield	2693.3	-2.3	2757.0	2788.3	2556.7	2.23	1.89	2.07	27.03	39.18	1963.60
FTSE SmallCap	2367.72	-1.6	2405.56	2413.15	2228.83	3.40	2.76	1.92	19.13	38.18	2066.61
FTSE SmallCap ex Inv Tr	2359.02	-1.4	2392.09	2395.55	2183.55	3.62	2.95	2.02	17.11	40.06	2090.51
FTSE All-Share	2558.06	-2.6	2625.13	2660.68	2376.39	3.11	2.62	1.95	20.61	46.15	2329.53
FTSE All-Share ex Inv Tr	2564.77	-2.6	2632.11	2667.84	2377.25	3.13	2.65	1.97	20.28	46.72	1201.72

FTSE Actuaries Industry Sectors

	Aug 11	Day's chge%	Aug 10	Aug 7	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	3948.82	-0.8	3979.52	4082.78	5048.33	3.89	3.36	1.66	19.37	88.04	1822.75
12 Extractive Industries(6)	2586.17	-1.1	2614.88	2671.45	4478.03	5.40	4.95	2.05	11.27	76.82	816.24
15 Oil, Integrated(4)	4441.57	-0.7	4474.43	4589.20	5356.92	3.84	3.28	1.58	20.59	98.56	2110.25
16 Oil Exploration & Prod(12)	2603.05	-0.7	2621.32	2648.75	3827.82	2.19	1.81	1.74	32.86	33.41	1617.96
20 GEN INDUSTRIALS(216)	1886.14	-2.5	1934.61	1950.06	2085.92	3.84	3.39	2.27	14.32	36.89	1111.64
21 Construction(38)	1345.70	-1.9	1372.02	1374.14	1380.25	3.66	2.97	2.72	12.54	22.87	1203.01
22 Building Matls & Merchs(26)	1555.66	-2.0	1588.18	1605.84	1960.97	4.73	4.12	2.00	13.23	39.74	851.76
23 Chemicals(23)	2164.83	-3.0	2231.41	2271.05	2790.40	4.39	4.07	1.71	16.68	46.50	1110.11
24 Diversified Industrials(7)	1198.36	-4.5	1254.48	1248.62	1395.83	4.82	4.49	2.11	12.29	26.73	739.71
25 Electronic & Elect Equip(26)	2482.82	-3.1	2561.58	2600.58	2204.64	3.05	2.48	1.85	22.18	23.06	1368.97
26 Engineering(53)	2516.37	-1.7	2560.70	2570.35	2613.60	3.78	3.38	2.49	13.29	54.75	1632.63
27 Engineering, Vehicles(11)	3673.80	-4.3	3840.78	3863.44	3220.44	2.38	2.18	3.39	15.57	43.88	2025.46
28 Paper, Pckg & Printing(22)	1865.63	-2.7	1917.78	1932.79	2166.39	4.81	4.31	2.41	10.79	49.67	847.60
30 CONSUMER GOODS(90)	5451.34	-2.3	5577.51	5665.94	4653.15	2.89	2.40	1.73	26.85	94.93	2164.96
32 Alcoholic Beverages(6)	3734.06	-3.4	3866.91	3961.71	3349.69	3.63	3.07	1.80	21.56	69.61	1463.89
33 Food Producers(25)	3718.47	-1.8	3784.99	3803.40	3207.76	2.81	2.39	2.10	21.19	63.42	1809.04
34 Household Goods & Texts(24)	2948.48	-1.6	2997.85	3107.10	3158.54	3.70	3.30	2.05	16.50	53.57	1245.24
36 Health Care(13)	2430.24	-1.5	2467.63	2484.39	2277.21	2.11	1.85	2.21	26.86	31.01	1558.09
37 Pharmaceuticals(19)	9054.87	-2.1	9248.86	9371.76	7458.77	1.95	1.82	1.59	40.42	145.50	3256.13
38 Tobacco(3)	5243.21	-3.1	5408.47	5585.52	4349.22	4.91	4.34	1.61	15.80	190.10	1467.52
40 SERVICES(280)	3429.51	-2.3	3510.28	3533.72	2764.11	2.50	2.05	2.01	24.96	48.01	1894.54
41 Distributors(28)	2296.61	-0.5	2308.77	2262.18	2870.44	4.31	3.56	1.96	14.80	50.02	906.82
42 Leisure & Hotels(27)	3316.86	-3.4	3432.61	3460.66	3215.57	2.86	2.37	2.59	16.90	68.91	1867.37
43 Media(41)	4348.86	-0.7	4375.72	4424.43	4217.72	2.40	2.02	2.14	24.36	60.78	1650.72
44 Retailers, Food(13)	2875.30	-2.7	2955.77	2960.93	2471.96	3.15	2.52	2.04	19.45	47.98	1985.88
45 Retailers, General(49)	2098.52	-1.9	2138.94	2141.57	2238.52	3.54	2.85	2.17	16.25	40.68	1285.40
46 Telecommunications(10)	4756.13	-1.9	4847.88	4867.40	2404.98	1.83	1.52	1.46	46.80	47.59	2332.78
47 Breweries, Pubs & Rest.(24)	3794.40	-2.4	3888.99	3906.33	3395.42	3.24	2.60	2.36	16.34	65.00	1948.71
48 Support Services(64)	4639.22	-3.9	4827.46	4877.52	3117.66	1.30	1.09	2.89	35.92	31.61	3059.74
49 Transport(24)	3697.37	-3.6	3836.66	3815.39	2883.53	2.87	2.35	1.60	27.28	59.42	1656.66
60 UTILITIES(22)	4039.00	-1.0	4079.78	4087.54	3086.62	3.99	3.27	1.73	18.09	88.19	1945.85
62 Electricity(8)	4378.63	-1.8	4458.91	4436.04	3355.62	4.60	3.88	1.89	14.38	104.41	2582.82
64 Gas Distribution(2)	3199.83	+0.3	3189.94	3161.01	2980.36	2.03	1.63	‡	‡	26.03	1849.29
68 Water(12)	3595.83	-0.8	3624.11	3625.12	2872.25	4.75	4.07	2.34	11.26	112.14	2250.47
69 NON-FINANCIALS(630)	2628.93	-2.1	2684.07	2712.15	2374.50	3.00	2.56	1.91	21.74	45.12	2150.24
70 FINANCIALS(108)	4769.37	-4.1	4975.25	5091.37	4786.69	3.54	2.92	2.12	18.71	103.04	2215.65
71 Banks, Retail(12)	6737.21	-4.7	7072.19	7261.40	7491.88	3.79	3.03	2.11	15.62	159.68	2372.52
73 Insurance(16)	2306.82	-4.9	2425.48	2518.25	1883.29	3.71	3.46	2.12	15.92	50.10	1909.61
74 Life Assurance(6)	6698.78	-3.6	6950.54	7094.68	5052.54	2.85	2.46	2.40	18.28	108.92	2883.63
77 Other Financial(25)	4354.19	-3.2	4497.83	4557.62	3872.75	2.57	2.12	2.16	22.55	71.17	2661.04
79 Property(45)	1912.93	+0.3	1906.58	1879.24	2030.77	3.44	2.88	1.64	22.22	36.14	1263.02
80 INVESTMENT TRUSTS(114)	3594.71	-2.4	3674.48	3719.96	3584.60	2.27	1.84	1.18	46.78	43.29	1309.44
89 FTSE All-Share(850)	2558.06	-2.6	2625.13	2660.68	2376.39	3.11	2.62	1.95	20.61	46.15	2329.53
105 FTSE All-Share ex Inv Tr(736)	2564.77	-2.6	2632.11	2667.84	2377.25	3.13	2.65	1.97	20.28	46.72	1201.72
Information Technology	1575.88	-4.0	1641.41	1658.31	--	0.58	0.45	4.15	53.82	4.82	1581.05
FTSE Fledgling	1292.85	-1.7	1315.40	1320.45	1251.10	3.40	2.75	1.39	26.50	21.75	1438.53
FTSE Fledgling ex Inv Tr	1313.96	-1.6	1334.81	1339.41	1246.36	3.74	3.03	1.45	23.09	24.30	1468.49
FTSE AIM	1021.3	-1.7	1038.8	1043.9	1025.0	1.24	0.89	0.10	60.00†	7.05	946.30

Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5567.6	5510.9	5510.0	5468.3	5447.3	5478.5	5472.1	5424.9	5557.2	5403.3
FTSE 250	5269.0	5267.2	5258.8	5245.2	5220.3	5216.9	5216.8	5201.8	5287.0	5199.5
FTSE 350	2685.4	2663.2	2662.0	2640.4	2633.7	2645.7	2643.2	2623.2	2683.2	2615.9
FTSE SmallCap	2398.55	2394.37	2390.09	2385.60	2378.15	2374.23	2372.76	2368.78	2399.71	2367.72
FTSE All-Share	2623.34	2593.51	2592.15	2572.09	2565.47	2576.20	2573.80	2555.23	2612.16	2548.93

Time of FTSE 100 Day's high: 9:03:15 Day's low: 13:28:30. FTSE 100 1998 High: 6179.0 (20/07/98) Low: 5068.8 (12/01/98)
Time of FTSE All-Share Day's high: 9:03:00 Day's low: 13:28:00. FTSE All-Share 1998 High: 2895.20 (20/07/98) Low: 2380.22 (12/01/98)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks yesterday

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

AMERICAS

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY AUGUST 10 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY AUGUST 7 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (73)	179.40	-0.6	162.99	166.16	165.98	199.31	-0.3	3.74	180.52	163.95	168.38	166.37	199.82	238.24	173.27	233.51
Austria (22)	225.40	-0.3	204.78	208.76	208.54	208.40	0.0	1.82	226.19	205.49	208.48	208.46	208.32	253.73	181.80	199.22
Belgium (22)	385.57	-1.2	350.30	357.11	356.72	348.77	-0.9	1.96	390.38	354.55	359.80	359.77	351.88	398.52	234.33	239.21
Brazil (26)	195.79	-2.0	177.88	181.34	181.14	421.30	-1.9	2.74	199.82	181.49	184.17	184.16	429.39	308.59	184.94	289.60
Canada (119)	201.11	-1.5	182.71	186.27	186.06	221.02	-1.7	1.84	204.26	185.51	188.26	188.24	224.86	248.78	198.10	221.59
Denmark (34)	478.25	-1.9	434.50	442.96	442.47	440.94	-1.6	1.47	487.52	442.78	449.33	449.30	448.18	537.33	375.32	387.43
Finland (26)	458.08	-2.5	416.17	424.27	423.81	528.15	-2.1	1.77	469.65	426.73	433.09	433.02	531.48	508.46	267.59	307.43
France (78)	309.75	-2.5	281.41	286.89	286.57	289.92	-2.1	2.17	317.81	288.64	292.92	292.89	296.22	345.18	217.48	227.23
Germany (56)	287.52	-2.2	261.22	266.30	266.01	266.01	-1.8	1.20	293.98	267.00	270.96	270.93	270.93	325.61	204.69	232.50
Greece (37)	319.30	-1.4	290.09	295.74	295.41	675.55	-0.9	1.39	323.87	294.15	298.51	298.48	681.86	333.20	260.24	-
Hong Kong, China (66)	208.41	0.3	189.34	193.03	192.82	207.34	0.3	7.48	207.81	188.74	191.53	191.52	206.71	577.57	207.81	577.57
Indonesia (27)	29.38	-3.8	26.70	27.22	27.19	236.15	-1.2	2.87	30.55	27.74	28.15	28.15	238.92	208.93	23.58	208.93
Ireland (16)	518.57	-0.3	471.13	480.30	479.77	517.18	0.1	1.83	520.24	472.50	479.50	479.45	516.72	580.44	359.80	373.59
Italy (54)	165.45	-2.1	150.31	153.24	153.07	216.92	-1.8	1.36	169.06	153.56	155.84	155.82	220.80	184.49	97.34	98.92
Japan (480)	85.48	-2.0	77.64	79.15	79.07	79.15	-1.5	0.99	87.17	79.17	80.34	80.34	80.34	134.46	83.04	134.46
Malaysia (106)	89.56	-3.5	81.37	82.95	82.86	145.89	-2.9	4.30	92.79	84.28	85.53	85.52	150.19	418.94	89.56	418.94
Mexico (29)	1175.68	-4.2	1068.12	1088.90	1087.71	11722.28	-3.0	2.32	1226.94	1114.34	1130.84	1130.75	12080.59	1901.98	1175.66	1810.34
Netherlands (27)	494.49	-1.3	449.26	458.00	457.50	452.92	-0.9	1.97	501.17	455.18	461.92	461.88	457.25	582.38	385.56	428.23
New Zealand (14)	58.87	-2.4	53.48	54.52	54.46	61.52	-1.9	4.95	60.33	54.79	55.61	55.60	62.70	95.87	56.33	89.56
Norway (36)	283.13	-1.3	257.28	262.23	261.95	292.02	-1.0	2.14	286.93	260.60	264.46	264.44	294.88	374.64	281.62	390.72
Philippines (22)	56.89	-2.7	51.68	52.69	52.63	125.17	-1.2	1.35	58.49	53.12	53.91	53.90	126.65	149.40	56.89	149.40
Portugal (18)	272.14	-1.2	247.25	252.06	251.78	339.03	-0.8	0.96	275.39	250.12	253.82	253.80	341.88	299.39	261.25	-
Singapore (42)	135.84	-0.5	123.42	125.82	125.68	109.86	0.0	2.74	136.47	123.94	125.78	125.77	109.86	356.05	133.81	356.06
South Africa (40)	195.08	-0.1	177.23	180.68	180.48	268.19	0.0	3.32	195.23	177.32	179.94	179.93	268.19	357.94	195.08	357.94
Spain (31)	385.12	-2.1	349.89	356.70	356.31	440.60	-1.7	1.73	393.27	357.18	362.47	362.44	448.18	417.73	236.28	245.10
Sweden (49)	535.85	-3.7	486.65	496.12	495.58	641.09	-2.8	1.83	556.49	505.42	512.91	512.86	659.51	628.19	439.98	511.21
Switzerland (26)	409.16	-2.8	371.73	378.96	378.55	379.15	-2.6	1.10	421.07	382.43	388.09	388.06	389.35	439.49	285.86	313.66
Thailand (37)	10.08	-7.4	9.16	9.34	9.32	16.39	-7.5	5.75	10.89	9.89	10.03	10.03	17.75	59.46	10.08	59.46
United Kingdom (210)	358.29	-1.5	323.70	330.00	329.64	323.70	-1.5	3.07	361.75	328.55	333.41	333.38	328.55	401.84	303.41	311.61
USA (627)	443.78	-0.6	403.19	411.03	410.58	443.78	-0.6	1.46	446.29	405.33	411.34	411.30	446.29	485.88	358.31	378.82
Americas (801)	397.59	-0.6	361.22	368.25	367.85	338.87	-0.6	1.49	400.13	363.41	368.79	368.76	339.01	437.03	326.79	346.70
Europe (748)	346.97	-2.0	315.23	321.37	321.02	328.96	-1.7	2.06	354.05	321.58	326.32	326.30	334.72	386.24	265.25	277.06
Eurobloc (352)	101.58	-2.0	92.38	94.17	94.07	101.73	-1.6	1.89	103.77	94.25	95.64	95.63	103.41	113.28	99.54	-
Nordic (149)	484.64	-3.0	440.30	448.87	448.38	500.73	-2.3	1.78	499.76	453.90	460.82	460.58	512.72	555.97	388.51	431.81
Pacific Basin (667)	90.01	-1.7	81.78	83.37	83.28	83.23	-1.3	1.76	91.56	83.17	84.40	84.40	84.29	152.78	88.45	152.78
Euro-Pacific (1615)	197.13	-1.9	179.10	182.58	182.38	175.89	-1.6	1.99	201.00	182.55	185.26	185.24	178.76	220.19	172.03	204.66
North America (746)	427.89	-0.6	388.57	396.13	395.70	428.80	-0.8	1.48	430.27	390.78	396.57	396.54	431.21	469.20	349.06	369.12
Europe Ex. UK (538)	329.70	-2.2	299.54	305.37	305.04	321.14	-1.8	1.60	337.21	306.27	310.80	310.78	327.13	366.32	238.79	251.70
Europe Ex. Eurobloc (396)	93.45	-2.0	84.90	86.55	86.46	95.17	-1.8	2.48	95.34	86.59	87.87	87.87	96.93	103.93	93.45	-
Europe Ex. UK Ex. Eurobloc (186)	99.10	-2.9	90.03	91.78	91.68	100.48	-2.5	1.35	102.05	92.68	94.05	94.05	103.03	109.21	95.88	-
Pacific Ex. Japan (387)	139.55	-0.7	126.79	129.25	129.11	148.44	-0.3	5.03	140.47	127.58	129.47	129.46	148.95	310.94	139.55	310.94
World Ex. Eurobloc (2104)	93.28	-1.1	84.74	86.38	86.30	95.18	-0.9	1.73	94.26	85.61	86.88	86.87	96.09	103.16	93.25	-
World Ex. US (1829)	197.57	-1.9	179.50	182.99	182.79	180.72	-1.6	2.01	201.42	182.93	185.64	185.63	183.67	221.91	175.30	208.92
World Ex. UK (2246)	269.42	-1.2	244.77	249.53	249.26	249.98	-1.0	1.57	272.68	247.61	251.28	251.26	252.55	298.02	234.24	258.45
World Ex. Japan (1976)	372.17	-1.1	338.13	344.71	344.33	367.81	-1.0	1.80	376.45	341.90	346.97	346.94	371.61	411.23	309.33	328.80
The World Index (2456)	276.84	-1.2	251.51	256.41	256.13	256.75	-1.1	1.72	280.24	254.52	258.29	258.27	259.51	306.56	241.30	263.06

Emerging markets: IFC Investable indices

4 pm close August 11

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
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Closing values at 18.00 CET. E-Mail:info@eurobench.com

European Sector Indices		CURRENT 11/8/98	PREVIOUS 10/8/98	NET CHANGE	% CHANGE
Financials	USD	2129.91	2231.05	-101.14	-4.53
(IN-FIN)	DEM	2650.32	2773.40	-123.08	-4.38
Non-durable goods	USD	1567.61	1600.36	-32.75	-2.04
(EN-GOODS)	DEM	1950.64	1990.83	-40.19	-2.01
Oils	USD	1337.09	1314.18	+22.91	+1.74
(EN-OILS)	DEM	1663.79	1634.83	+28.96	+1.77
Pharma-chemicals	USD	1421.98	1467.26	-45.28	-3.08
(IN-PHARMA)	DEM	1769.42	1823.25	-53.83	-3.05

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Aug 10	Aug 7	Aug 6	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8574.85	8598.02	8577.68	9337.97 (17/7)	7539.42 (9/1)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	105.28	105.19	105.23	105.48 (15/1)	104.42 (7/1/3)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3083.13	3190.77	3098.10	3686.02 (16/4)	3083.13 (10/8)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	276.67	277.06	273.59	295.48 (6/7)	262.88 (9/1)	295.48 (6/7/98)	10.53 (8/7/32)

DJ Ind. Day's high 8683.16 (8745.03) Low 8491.17 (8490.40) (Theoretical) Day's high 8635.35 (8710.02) Low 8543.15 (8552.98) (Actual)

Standard and Poors	Aug 10	Aug 7	Aug 6	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1083.14	1089.45	1089.63	1186.75 (17/7)	927.69 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials¶	1272.86	1277.85	1276.51	1389.48 (17/7)	1077.40 (9/1)	1389.48 (17/7/98)	3.52 (30/6/32)
Financial¶	127.64	129.40	130.37	147.89 (14/7)	110.65 (9/1)	147.89 (14/7/98)	7.13 (1/10/74)
Others							
NYSE Comp.	545.72	549.50	547.80	600.75 (17/7)	487.47 (9/1)	600.75 (17/7/98)	4.64 (25/4/42)
Amex Comp	679.80	684.07	676.95	753.67 (22/4)	646.41 (12/1)	753.67 (22/4/98)	524.29 (15/7/98)
NASDAQ Cmp	1839.21	1846.77	1829.51	2014.25 (20/7)	1509.22 (9/1)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	411.64	415.80	408.61	491.41 (21/4)	388.69 (5/8)	491.41 (21/4/98)	123.36 (7/12/83)

RATIOS

	Aug 7	Jul 31	Jul 24	Year ago
Dow Jones Ind. Div. Yield	1.71	1.65	1.64	1.51

	Aug 5	Jul 29	Jul 22	Year ago
S & P Ind. Div. yield	1.38	1.30	1.26	1.47
S & P Ind. P/E ratio	30.34	31.51	32.56	25.35

US DATA

MARKET ACTIVITY

Volume (million)	Aug 10	Aug 7	Aug 6
NYSE	579.180	758.150	798.490
Amex	19.074	31.051	32.744
NASDAQ	551.312	814.947	796.962

NYSE	Aug 10	Aug 7	Aug 6
Issues Traded	3,519	3,504	3,504
Rises	986	1,980	1,882
Falls	1,985	978	1,285
Unchanged	538	546	352
New Highs	21	32	17
New Lows	189	132	108

NYSE TRADING ACTIVITY

Volume : 579,180,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
EDS	17,336,000	41½	-½
Compaq	9,977,400	34⅛	+⅛
Lifetec	8,487,100	33¾	-3¼
Siemens	6,199,500	18	-⅛
CocaCo	5,922,600	29⅝	+⅛
Boeing	4,852,200	39⅛	-⅛
Pepsico	4,785,400	35⅞	-1⅜
Elkey	4,675,600	48⅞	-1⅛
AccDel.se	3,935,500	113⅛	+1⅛
Telebras	3,872,300	102¾	-¼

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Coast Vent	13	+1⅜	+11.8
AerBx	10⅛	+⅞	+8.7
St JoeCorp	23¾	+1¾	+8.1
GKE	30⅛	+2⅛	+7.8
Downs			
NCR	29⅝	-3	-9.1
Unifirst	33¾	-3¼	-8.4
ChiMI	21⅛	-1⅝	-7.1
Vornair	13⅛	-1	-7.0

NASDAQ TRADING ACTIVITY

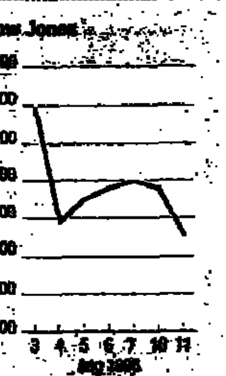
Volume :551,312,000

ACTIVE STOCKS

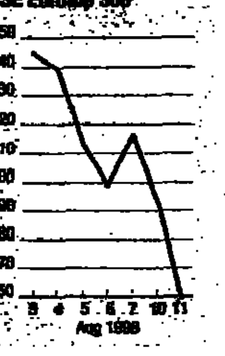
Monday	Stocks traded	Close price	Day's change
Nabsco	17,472,400	31⅛	+6¾
[illegible]			

BIGGEST MOVERS

[illegible]



Dow Jones



FTSE Eurotop 300

JAPAN

[illegible]

FRANCE

[illegible]

GERMANY

[illegible]

UK

[illegible]

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	1072.00	1068.80	-20.00	1076.00	1068.50	97,765	349,828
Dec	1082.00	1080.00	-20.20	1086.00	1080.00	744	16,796

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	15520.0	15350.0	-200.00	15600.0	15260.0	32,625	209,223
Dec	15550.0	15290.0	-200.00	15550.0	15230.0	892	16,949

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Aug	3940.0	3846.0	-103	3943.0	3830.0	78,620	156,193
Sep	3960.0	3858.5	-103.5	3960.0	3798.5	1,691	108,191

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Sep	5460.0	5281.0	-190.0	5464.0	5267.0	43,417	84,337
Dec	5495.0	5334.5	-190.0	5498.0	5330.5	65	2,627

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Aug	710.50	699.00	-19.75	711.00	685.00	45,795	153,985
Sep	708.00	701.00	-21.50	711.00	688.00	1,018	8,537

SOFFEX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Aug	7615.1	7450.0	-265.0	7680.0	7380.1	11,840	28,032
Sep	7700.0	7461.0	-296.1	7691.0	7380.0	679	3,375

WORLD MARKETS AT A GLANCE

Country	Index	Aug 11	Aug 10	Aug 7	1998 High	1998 Low	Yield	P/E
Argentina	General	18159.73	18791.20	19182.83	23486.47 23/3	18237.40 2/1	3.27	15.7
The market fell to a two-year low on Asian fears.								
Australia	All Ordinaries	2561.1	2587.4	2590.0	2861.40 15/4	2524.90 18/6	3.43	18.6
	All Mining	533.0	546.9	549.7	713.10 23/4	533.00 11/8		
Declined with bonds and local dollar in moderate turnover of A$768m. Falls beat rises by 7 to 3.								
Austria	Credit Aktien	(c)	511.52	510.68	594.34 26/5	437.44 13/1	1.81	15
	ATX Index	1302.89	1426.89	1423.36	1628.56 26/5	1246.89 13/1		
Engineering group VA Technologie posted the biggest decline, falling 5.7 per cent.								
Belgium	BEL20	3375.22	3469.19	3498.35	3632.07 20/7	2367.78 10/1	1.57	22.5
Financials were worst hit with Fortis down 3.7 per cent.								
Brazil	Bovespa	8801.0	9182.0	9319.0	12288.60 15/4	9074.60 15/6	na	na
Telebras, which accounts for about 50 per cent of total trading, tumbled over 5.6 per cent.								
Canada	TSE 100	387.82	398.23	408.32	475.63 25/5	380.93 12/1	1.77	20.2
	Metals Minls	3030.71	3146.95	3188.55	4380.01 10/3	3108.23 4/8		
	Composite	6332.20	6523.70	6641.10	7822.30 22/4	6230.86 12/1		
	Portfolio§§	3192.64	3275.32	3342.28	3886.81 25/5	3234.41 12/1		
All of 14 sub-sectors lost ground led by oil and gas and gold and precious metals.								
Chile	IGPA Gen	3937.27	4003.44	4029.62	4881.95 17/3	3930.35 7/7	3.18	13
A tumble in the peso depressed equity prices.								
China	Shanghai B	27.19	27.83	28.62	86.98 10/2	27.19 11/8	1.35	29.8
	Shenzhen B	52.80	55.46	57.57	98.97 10/2	82.80 11/8		
Weak yen and tumbling Hong Kong stocks led hard-currency shares to new lows.								
Colombia	IBB	1076.38	1076.38	(c)	1431.46 7/1	1017.03 17/6	na	na
Czech Republic	PX 50	447.5	464.1	468.5	517.30 23/3	432.30 16/6	na	na
Denmark	CopenhagenSE	675.01	695.90	701.00	778.84 7/4	667.08 12/1	1.47	18.9
SAS Airlines lost ground ahead of first-half results release.								
Egypt	Cairo SE Gen	364.58	365.31	(c)	393.19 21/4	345.49 2/2	na	na
Finland	HEX General	4752.83	5029.22	5121.29	5603.43 21/7	3220.43 12/1	2.01	17.1
Shares tumble on 6 per cent fall in Nokia. Metals and engineering weak on Asia exposure fears.								
France	SBF 250	2479.46	2538.86	2594.16	2799.73 17/7	1873.10 12/1	2.35	18.7
	CAC 40	3845.98	3939.45	4041.88	4388.48 17/7	2892.54 12/1		
Bounced off lows thanks to a rally in the oil sector.								
Germany	FAZ Aktien	1699.42	1746.99	1744.55	1949.86 20/7	1394.15 12/1	1.35	22.8
	Commerzbank	4994.50	5135.70	5138.10	5712.60 20/7	3926.29 12/1		
	DAX‡	5268.40	5476.25	5581.22	6171.43 20/7	4082.28 12/1		
Dresdner lost ground on rumours of a possible acquisition of PaineWebber of the US.								
Greece	Athens SE	2611.30	2694.57	2716.49	2825.52 21/7	1389.13 29/1	1.6	20.9
	FTSE/ASE 20	1587.36	1638.59	1658.45	1727.13 21/7	786.18 29/1		
Industrials fell 3.2 per cent and banks lost 3 per cent.								
Hong Kong	Hang Seng	6779.95	7034.62	7018.41	11810.83 25/3	6779.95 11/8	5.9	7.4
	HSCC Red Chip	585.17	611.76	617.26	1775.96 27/2	585.17 11/8		
Overshadowed by ongoing fears of a possible Chinese renminbi devaluation in spite of continued denials of its necessity.								
Hungary	Bux	7146.72	7748.98	7855.92	9818.96 23/4	7048.35 28/5	na	na
Trading in gas distributor Primagaz suspended after falling beyond its daily limit.								
India	BSE Sens.	2970.64	3029.71	3062.25	4280.96 21/4	2970.64 11/8		
	Crisil 500	592.72	600.61	608.95	835.52 21/4	578.17 23/6	na	na
Domestic political concerns and regional market weakness weighs on share prices.								
Indonesia	Jakarta Comp.	407.06	421.17	423.61	554.10 2/2	342.97 9/1	2.38	66.4
Slid with regional markets and the weak yen. Telkom fell 8.4 per cent, Indosat lost 8.3 per cent and falls beat rises.								
Ireland	ISEQ Overall	4953.18	5085.71†	5090.92	5471.81 21/4	4054.76 2/1	1.92	19.6
Israel	Tel Aviv 100	320.41	329.38	(c)	337.48 8/6	263.12 11/2	na	na
Italy	BCI Comit 30	339.89	349.64	355.75	388.60 20/7	254.94 2/1	1.72	25.6
	Banca Com Ital	1435.22	1477.83	1486.52	1654.36 7/4	1072.35 2/1		
	Mibtel General	22804.0	23446.0	23825.0	26377.00 6/4	17206.00 2/1		
Fiat lost 3.4 per cent on low Brazilian sales figures.								
Japan	Nikkei 225	15409.99	15626.42	15929.17	17264.34 2/3	14664.44 12/1	0.92	41.5
	Nikkei 300	232.87	237.24	240.75	257.43 10/2	224.85 12/1		
	Topix	1186.88	1207.09	1225.39	1300.30 10/2	1120.61 12/1		
	2nd Section	1305.72	1320.25	1331.75	1401.27 12/2	1173.76 14/1		
Fell with bonds and weak yen amid ongoing concerns over banking sector and fears of a possible interest rate rise.								
Jordan	Amman SE	(c)	180.59	(c)	182.03 18/5	164.64 30/1	na	na
Malaysia	KLSE Comp.	334.70	353.28	364.09	745.36 27/2	334.70 11/8	4.48	8.6
Weak ringgit continued to hamper sentiment with shares sliding to lowest levels in a decade.								
Mexico	IPC	3557.27	3731.49	3844.93	5294.00 2/1	3731.49 10/8	1.53	10.8
Sharp declines in global markets depressed share prices.								
Morocco	CASA	845.35	842.80	843.83	845.35 11/8	668.57 21/1	na	na
Netherlands	CBS TRtnGen	1292.9	1338.8	1350.3	1493.60 20/7	1043.28 12/1	1.95	24
	CBS All Shr	731.8	757.6	784.0	845.30 20/7	599.20 12/1		
Baan and ASM Lithography suffered from sharp declines in US high-technology shares.								
New Zealand	Cap. 40	1993.27	2008.98	2031.18	2358.62 20/3	1942.31 22/6	4.92	18.2
Political row over privatisation of Wellington airport seen as threat to centre-right coalition, hurt confidence.								
Nigeria	SE All-Share	(c)	5833.61	5847.65	6604.87 11/2	2238.48 12/1	na	na
Norway	Oslo SE Ind	1979.54	2041.41	2057.88	2378.68 4/5	1889.91 13/1	1.73	14.9
Shares hit a new 1998 low on a slide in oil prices and a hike in interest rates.								
Pakistan	Karachi SE	955.60	981.63	972.96	1746.31 2/1	765.73 14/7	na	na
Bears retreated with falls beating rises by 5 to 3.								
Peru	Lima Gen	1571.29	1611.71	1630.51	1909.91 4/5	1552.60 25/2	na	na
Philippines	Manila Comp	1373.19	1427.66	1449.72	2311.42 25/3	1373.19 11/8	1.83	10.6
Falls trounced rises by nearly 8 to 1, while the peso hardened in response to sharp rises in interest rates.								
Poland	WIG	15215.4	15655.4	15578.5	18582.70 11/3	13228.80 12/1	2.88	5.1
Losses led gainers by 113 to 32 with 22 stocks flat.								
Portugal	BVL 30	5268.65	5452.33	5400.50	6378.80 22/4	3879.27 2/1	1.85	31
	PSI 20	11956.81	12395.98	12500.57	14292.90 22/4	9831.94 2/1		
Banking shares and utility EDP-Electricidade de Portugal, the most liquid stocks on the market,fell sharply.								
Russia	RTS	108.90	120.92	132.85	411.81 5/1	108.90 11/8	na	na
Equities, which were briefly suspended, declined as treasury bill prices tumbled.								
Singapore	SES All-S'pore	293.02	(c)	299.41	437.98 19/3	288.04 18/6	3	12.6
	Straits Times	1007.93	(c)	1039.27	1609.75 19/3	1007.93 11/8		
Falls swamped rises by nearly 15 to 1 amid continuing fears over a possible renminbi devaluation.								
Slovakia	SAX	112.29	111.59	113.25	182.48 5/1	107.03 1/7	na	na
Gains in steel maker VSZ pushed up the market.								
South Africa	JSE All Share	6303.7▼	(c)	6643.3	8398.70 20/4	5999.80 12/1		
	JSE Gold	817.7▼	(c)	952.5	1152.70 6/7	672.68 18/3		
	JSE Ind.	7376.7▼	(c)	7722.6	9842.70 20/4	6715.10 12/1	3.24	11.6
The financial index fell 6.7 per cent, industrials lost 4.5 per cent and golds were off 3.7 per cent.								
South Korea	KoreaCompEx**	311.25	311.95	321.71	574.35 2/3	280.00 16/6	1.8	14.5
Retailers continued to absorb supply while local institutions and foreigners were net sellers.								
Spain	Madrid SE	852.11	878.86	892.40	947.82 17/7	645.14 12/1	1.78	24.7
Metals were the biggest decliners on Asian fears.								
Sri Lanka	CSE All Share	584.50	587.10	(c)	789.70 4/5	586.80 25/6	na	na
Lack of foreign interest left shares drifting lower.								
Sweden	AffarsvarldsGen	3421.0	3532.8	3620.9	3865.60 20/7	2853.10 12/1	1.86	21.1
Electrolux bucked the trend and gained ground on stronger-than-expected results.								
Switzerland	SMI Index	7447.9	7721.3	7952.9	8412.00 21/7	6062.10 12/1	1.18	25
	SPI General	4677.99	4844.45	4971.16	5237.30 20/7	3781.36 12/1	na	na
Shares fell on heavy volumes led by financials.								
Taiwan	Weighted Pr.**	7383.98	7372.12	7500.02	9277.09 2/3	7117.11 12/6	1.44	19
Edged ahead in thin turnover of T$64bn. Electronics sector finished flat.								
Thailand	Bangkok SET	234.14	238.30	247.54	558.92 3/2	234.14 11/8	4.89	38.7
Tumbled to new 11-year lows. Banks lost a further 4.6 per cent while financials rebounded 4.5 per cent.								
Turkey	IMKB Nat 100	3432.48	3715.80	3941.94	4530.99 18/7	2777.08 10/2	3.13	14.4
State oil refiner Tupras and steel maker Erdemir were among the most actively traded stocks.								
Venezuela	IBC	4050.67	4191.86	4394.13	7859.92 23/3	4191.86 10/8	na	na
Zimbabwe	ZSE Industrial	(c)	(u)	6492.55	8795.71 31/3	6492.55 7/8	na	na
WORLD	FT/S&P World(§)	(u)	276.84	280.24	305.82 17/7	243.98 9/1	na	na
	MS Capital Int$	(u)	1035.6	1049.0	1143.80 20/7	888.50 12/1	na	na
CROSS-BORDER	DJ Stoxx 50	3187.26	3274.83	3350.48	3670.62 20/7	2574.51 12/1		
	DJ Euro Stx 50	3187.44	3282.70	3348.61	3688.48 17/7	2489.81 12/1		
	FTSE E300	1159.16	1194.24	1217.49	1327.88 20/7	971.83 12/1		
	FTSE E100	2658.85	2735.18	2792.67	3068.81 20/7	2236.40 12/1	na	na
	HSBC Dgn	(u)	161.37	162.78	273.91 26/3	162.78 7/8	na	na
	ING Bngs Emg	112.18	118.34	119.34†	180.09 22/4	118.34 10/8	na	na

** Sat Aug 8: Taiwan Weighted Price (a); Korea Comp Ex 314.31. Nominal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ XETRA-DAX after-hours index: Aug 11: 5285.79 -174.65. † Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ▼ Subject to official recalculation. Yields and P/E ratios are based on Datastream Total Market indices. § Millennium.

THE NASDAQ STOCK MARKET

4 pm close August 11

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

4 pm close August 11

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Long hot summer keeps heat on Japan

WORLD OVERVIEW

The late-summer correction in global stock markets took another downward lurch yesterday, defying the hopes of those who thought August might be a quiet month, *writes Philip Coggan*.

Asia once again started the rot, with the yen hitting a new eight-year low, just as it had been threatening to do for a week or so.

The lack of detail so far in statements from the Japanese government has failed to inspire investors so all the benefit of June's concerted intervention to support the yen has now been lost.

The decline of the yen continued to spark fears about the stability of the Chinese renminbi and the Hong Kong dollar, with knock-on effects across the rest of Asia. The Hang Seng index fell below 7,000 and recorded a five-year low.

After Asia had closed, Indonesia provided a brief test of European markets' nerve after a bankers' statement that suggested the country had defaulted on a sovereign debt payment.

As the day unfolded, the story became more complex. The Paris Club said that Indonesia had been expected to suspend some debt repayments in August but one bank, Credit Agricole Indosuez, said the payment suspension had been unilateral.

Russia made its own contribution to the gloom, with yields on Treasury bills jumping to 115-130 per cent and a suspension on the Moscow stock market after shares had slid 7 per cent. After the return from suspension, the RTS index ended more than 9 per cent down.

As has been usual this month, European bourses were helpless in the face of international trends.

As it soon became apparent that Wall Street would open lower – the Dow Jones Industrial Average had dropped more than 250 points by lunchtime – stock markets fell across the continent.

Even news of the merger between BP and Amoco, one of the largest deals ever seen, failed to give the markets more than a brief lift. Most European bourses ended 2-3 per cent lower.

The weakness of stock markets prompted some switching into the safe haven of bonds, with German 10-year bond yields falling to post-war lows.

The fall in US and European stock markets now represents the biggest setback since 1994. Bill O'Neill, international investment strategist at HSBC Securities, said that there are signs of decoupling between bonds and equities.

"There is concern about the direction of policy in Japan and it is proving hard for markets to break out of the downward spiral."

Profit fears push Dow below 8,400

AMERICAS

Renewed fears about corporate earnings, driven by Asia and the rising dollar, sparked widespread selling on Wall Street and sent the Dow Jones Industrial Average bucketing down through the 8,400 level in active trading, *writes John Labate in New York*.

The worst of the selling hit the market early on with the Dow down more than 220 points in the first hour of trading. By early afternoon blue chips were off their lows, but the broad market remained determinedly negative with declining stocks beating the risers by more than 7 to 1.

The Dow was down 190.53 or 2.2 per cent by early afternoon at 8,384.82. The broader Standard & Poor's 500 index was off 20.39 to 1,062.75. Hardest hit were technology and small-company shares. The Nasdaq composite, weighted in technology shares, tumbled 51.91 or 2.8 per cent to 1,787.30 while the Russell 2000 index fell more than 3 per cent to 398.79.

The bond market was no help to equities. US Treasury prices surged on a flight to quality and the dollar gains. By early afternoon the 30-year Treasury bond was up 13/32 at 107 11/32, sending the yield down 5.588 per cent.

Financial stocks were hard hit. The Philadelphia Stock Exchange's bank stock index came off more than 3 per cent at 771.18. Among Dow component shares, Travelers Group fell $2 11/16 to $58¾ and J.P. Morgan lost $4 1/16 to $116¼.

Takeover news boosted some sectors. British Petroleum's takeover of Amoco sent both shares higher. ADR shares of BP were up $2¼ to $78¾ while Amoco climbed $6 9/16 or more than 15 per cent to $47 3/8.

PaineWebber also pushed higher, up more than 5 per cent to $47 7/16, on rumours that the company was in talks with Dresdner Bank of Germany.

Healthcare stocks were rocked by a large loss reported by Oxford Health Plans. Oxford's shares plunged more than 7 per cent or $11/16 to $8 9/16. United Healthcare, which on Monday said it would not merge with Humana, fell a further $2 9/16 to $31 3/16.

TORONTO moved lower across the board with shares diving for cover in the face of currency worries and the early weakness on Wall Street. The 300 composite index was off 193.40 at 6,330.30 at noon.

Banks continued to stream lower. Bank of Nova Scotia lost 45 cents at C$31.30 and Canadian Imperial, which issued a profits warning last week, fell 75 cents to C$35.20. Royal Bank of Canada gave up C$2.40 at C$71.10.

Golds were also in the doldrums – Barrick fell 75 cents at C$24.30 and Placer Dome shed 30 cents at C$15.40 – and there were plenty of big fallers among industrial shares.

Alcan Aluminium shed C$1.30 at C$36.50 in active trading and Seagram fell C$2.75 at C$47.90. Northern Telecom lost C$1.95 to C$80.30.

Mexico City tumbles

MEXICO CITY *fell steeply in* early trading with the weak opening on Wall Street and Monday's late monetary tightening by the central bank proving too punitive a combination for investors.

At midsession, the market was off 5.5 per cent with the IPC index falling 202.35 to 3,529.14.

SAO PAULO took fright at the sight of tumbling Asian and Russian markets.

Telebrás fell 4.6 per cent to R$114.50 and Petrobrás came off 3 per cent at R$195.99. The Bovespa index was down 404 or 4.4 per cent at 8,778 at midsession.

CARACAS continued to slide lower in what brokers described as moderate morning volume.

The benchmark IBC index was down 157.13 or 3.8 per cent at 4,024.73 at midsession.

Firm oils lift Paris off lows

EUROPE

Asian currency wobbles plus an early shakeout on Wall Street sent PARIS steeply lower, although shares *bounced off early lows* thanks to an active afternoon for the oil sector.

Turnover was above average for August at FFr12.6bn with Total and Elf Aquitaine contributing a combined FFr1.9bn on the news that *British Petroleum* planned a mega-alliance with Amoco of the US.

The two French oil stocks rose FFr10 to FFr630 and FFr5 to FFr704 respectively in marked contrast to the weakness shown across the rest of the market.

At the close of trading, the CAC 40 index was off 93.47 at 3,845.9 after touching a low for the session of 3,786.19.

Thomson-CSF was the day's backmarker, sliding *FFr17 or 7.4* per cent at FFr212. Peugeot and Saint Gobain both fell more than 6 per cent, tumbling FFr73 at FFr1,047 and FFr61 at FFr940 respectively.

FRANKFURT came off 174.65 at 5,285.78 on the Xetra Dax index as 10-year German bond yields sank to fresh lows.

Dresdner Bank fell DM4.35 to DM93.05 following a wave of rumours that the bank – which declined to comment – was set to pay more than $10bn for PaineWebber, the US broking house. Deutsche Bank lost DM5.75 at DM126.65.

Volkswagen stayed under a cloud, falling DM12.10 to DM140.85 for a two-day decline of almost 15 per cent. Karstadt, a strong market lately, ran into determined profit-taking. The shares gave up DM49.30 at DM790.20. SAP lost DM83.50 at DM1,047.

AMSTERDAM ran into heavy selling with ING off 6.5 per cent and Philips down 5 per cent. The AEX index ended 42.66 or 3.7 per cent lower at 1,124.98.

ING, down Fl 9.10 at Fl 131.50, was the day's steepest faller, but there was plenty of action elsewhere among financials. ABN Amro shed Fl 2.30 to Fl 46.60 in 10.3m shares traded. Philips gave up Fl 8.10 at Fl 153.

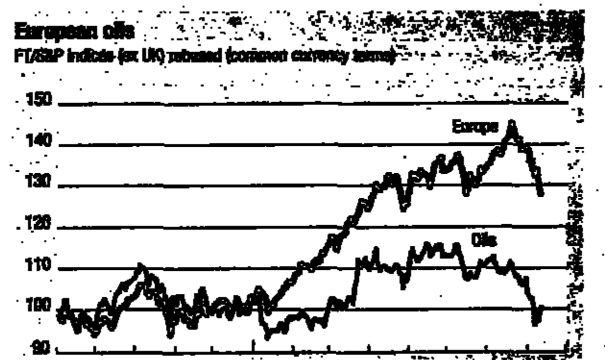
Royal Dutch ended Fl 2.60 lower at Fl 93.90, although news of the BP and Amoco merger lifted the stock off a Fl 92.20 low with 11m shares changing hands.

ZURICH tumbled on heavy trading and the SMI index lost 273.4 or 3.5 per cent to 7,447.9. Volume, which has hovered around SFr2bn recently, rose to SFr4.6bn. Derivatives-led technical trading added to activity.

Asian-related stocks were hit. SGS, which has declined sharply over the past few days on the negative impact of Asian exposure on its profits, fell SFr167 or 8.4 per cent to SFr1,821. ABB also declined SFr121 to SFr1,899 on Asian jitters.

Financials were sold off, with UBS down SFr28 or 4.8 per cent to SFr560 and Credit Suisse SFr17.50 lower to SFr323.50. Vontobel, the asset manager, declined SFr191 or 8 per cent to SFr2,211, while Swiss Life dropped SFr100 or almost 10 per cent to SFr915 on lingering uncertainty over UBS plans for its 25 per cent stake in the insurer.

MADRID lost ground as investors fled to bonds, and the general index fell 26.75 or 3 per cent to 852.11.



Source: Datastream/ICV

Fears of a sharp decline in Asian demand hit metal companies, which were among the biggest decliners. Tubacex, the pipe maker, fell Pta22 or 5.4 per cent to Pta387 while steel company Aceralia retreated Pta100 or 5.8 per cent to Pta1,635.

Telefónica fell Pta270 or 3.7 per cent to Pta7,070 following reports that SG Securities had removed the telecoms group from its European portfolio due to concerns of its investments in Telebrás of Brazil.

MILAN declined amid thin volumes, with the Mibtel down 642 or 2.7 to 22,804. Olivetti, the most active issue of the day, fell L101 or 2.5 per cent to L3,489.

Fiat fell L222 or 3.4 per cent to L6,540 after news that Brazilian car sales in July fell to 88,400 units, down 24 per cent from a year earlier. Gemina lost L24 at L1,527 after yesterday's sharp gains. Traders noted speculation that businessman Cesare Romiti had been buying into the group.

HELSINKI lost ground on weakness in Nokia, and the Hex index fell 276.39 or 5.5 per cent to 4,752.83.

Nokia lost FM8.20 to FM437.30, while the metal and engineering sector declined on Asian worries.

Forestry shares fell 4 per cent after some paper groups reported their first-half results. UPM Kymmene declined FM5.40 to FM120 while Enso retreated FM2.30 to FM46.20.

ISTANBUL bounced off session lows to end with the 100 index down 283.12 at 3,432.48 for a two-day decline of 13 per cent. Four stocks accounted for almost 27 per cent of the day's volume, including Is Bank and oil refiner Tuprad, which fell TL400 to TL8,400 and TL5,500 to TL28,500 respectively.

MOSCOW ended steeply lower after a day of hectic trade which saw the RTS-IF index suspended at one stage during the morning after a decline of 7 per cent triggered circuit breakers. At the close, the main electronic benchmark was off 11.02 or 9.1 per cent at 109.90, a low for the year.

Written and edited by Jeffrey Brown, Emiko Terazono, Paul Gregan and Peter Hall

Futures lead Jo'burg lower

SOUTH AFRICA

Johannesburg suffered heavy selling across the board and at the close the all share index was off 5.1 per cent at 6,303.7.

The session was dominated by downside pressure from the futures market and financials bore the brunt of the selling, tumbling 6.7 per cent to 10,755.5.

Industrials shed 4.5 per cent to 7,376.7 and golds gave up 3.7 per cent at 917.7. Among banks, ABSA fell 8.9 per cent to R25.20.

Tokyo bears brunt of yen drop

ASIA PACIFIC

The yen continued to ride *roughshod* over Asian markets, falling to an eight-year low against the dollar.

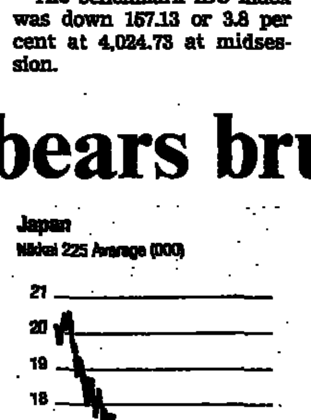
TOKYO set the tone for the day, extending the decline on the Nikkei 225 Average to 5.9 per cent in seven days, *writes Khozem Merchant*.

The benchmark ended 219.43 or 1.4 per cent lower at 15,406.99 after trading between 15,630.07 and 15,310.59. There was heavy selling as the yen broke through Y147 to the dollar.

The turmoil weighed heavily on the banking sector, which took another battering. The Long-Term Credit Bank of Japan fell Y6 or nearly 14 per cent at one stage before settling at Y38, down Y5. LTCB was the day's most heavily traded stock.

All but one of Japan's top 19 banks ended lower. Sakura Bank lost Y15 to Y283, another low for the year, amid concerns that it would be unable to recover Y14bn in loans to Mita Industrial, a photocopier maker which filed for bankruptcy earlier this week.

Steel and construction stocks were also under pressure. Nippon Steel closed Y1 down at Y249 in some of the heaviest trading of the day. The biggest loser was Ishikawa Seisaku, a large textile machine maker, which lost 16.7 per cent or Y100 at Y500.



Source: Datastream/ICV

The Topix index of all first-section shares fell 20.21 to 1,186.88. Losing shares outweighed gainers 952 to 189. In Osaka, the OSE index came off 240.62 at 16,538.58.

HONG KONG hit a five-year low on the Hang Seng index, which fell 254.67 or 3.6 per cent to 6,779.95. The session was again dominated by economic and currency worries plus hardening money market rates. The three-month HIBOR rose to 11.6 per cent.

HSBC fell HK$7 to HK$155 and accounted for more than 25 per cent of the day's HK$5bn turnover. Sun Hung Kai lost HK$2.05 at HK$22.90. Rumours of a devaluation of the renminbi were given added impetus by the news of widespread flooding in China. The red-chip index fell 2.7 per cent and H shares came off 4.9 per cent.

KUALA *LUMPUR turned* in the day's steepest Asian loss, sliding 5.3 per cent or 18.58 to 334.70 on the composite index, the lowest for 10 years.

The ringgit was weak and financial stocks came in for heavy selling. Malayan Banking, which puts out a results statement later this month, gave up 18 cents at M$2.86.

JAKARTA fell 14.10 or 3.4 per cent to 407.06 on the composite index as currency weakness and rumours of a possible default on sovereign debt sparked selling across the board. Turnover was Rp239bn.

Brokers said the trend had been exacerbated by a scramble by some traders to square positions ahead of a long holiday weekend. Market heavyweight Telkom shed Rp350 or 9.4 per cent to Rp3,375 in 2m shares traded.

MANILA tumbled to a 66-month low as the central bank increased key interest rates for the second time this week. The benchmark composite index lost 54.47 to 1,373.19, a decline of 3.8 per cent. Manila Electric fell 5.50 pesos or 6.1 per cent to 84 pesos while Ayala Land gave up 60 centavos or 6.3 per cent to 8.90 pesos.

SYDNEY retreated 1.4 per cent in moderate A$768m turnover with the All Ordinaries index sliping 36.3 to 2,561.1. Regional currency *worries plus uncertainty* ahead of tomorrow's tax reform package caused the selling.

BHP fell 34.8 cents to A$13.13 after Merrill Lynch reduced its earnings forecasts for the resources giant. News Corp, which puts out results tomorrow, shed 16.5 cents to A$11.24, while Commonwealth Bank lost 25 cents at A$19.55 ahead of today's results statement.

BANGKOK fell 4.16 or 1.8 per cent to 234.14 on the SET index ahead of today's national holiday. The banking sector stayed under a cloud, sliding a further 4.6 per cent.

Bangkok Bank was the day's most active stock, crashing 13.5 per cent or Bt4.25 to Bt27.25. Some financials met with bargain-hunting. National Finance jumped Bt0.60 to Bt3.10, a gain of 24 per cent.

TAIPEI ignored regional currency concerns and hardening local money markets rates to stand firm against the Asian downtrend.

At the close of trading, the weighted index was up 11.86 at 7,388.98 although volumes were low. Brokers said there was some bargain-hunting among electronics shares but that the day's uptick was mostly the result of a technical rebound.

EMERGING MARKET FOCUS

More casualties fall to Asia crisis

Emerging market investors had few places to hide as the yen hit an eight-year low, and Asian equity markets fell through key support levels amid rumours of a possible default by Indonesia of its sovereign bonds.

The yen's decline past Y147 to the dollar fuelled fears of the devaluation of the Chinese renminbi and Hong Kong dollar, sending regional currencies and shares lower. The contagion effects were quickly transmitted to markets in other regions, and even eastern Europe, which had held relatively firm against recent volatility, also buckled.

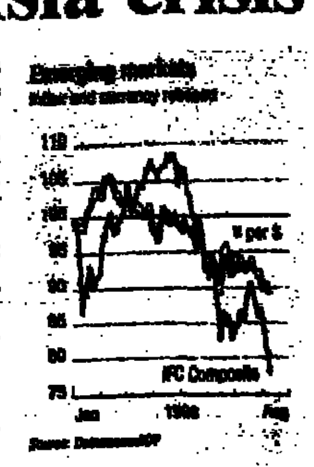
"All the fault lines – Russia, Brazil and South Africa – are showing signs of strain," says Matthew Merritt, emerging market strategist at ING Barings.

The casualties this time have not been limited to emerging markets. Asia's weakness has hit developed markets where uncertainty over corporate profits has weighed on sentiment, and US and European shares have started to look overvalued. Asia's woes could threaten to set the tone for global equities.

With the state of Japan's economy and its bad-loan problem at the root of the yen's weakness, the volatility in emerging markets could persist. The new government under Keizo Obuchi has failed to lift pessimism, and pressure on the yen is expected to persist.

"People are betting that Japan will let the yen go," says Arnab Banerji, chief investment officer at Foreign & Colonial. The risk for those who have sold the yen and Hong Kong dollar is that Japan will intervene to support its currency. However, a strong yen would not be in Japan's current interests.

The Chinese are unlikely to allow the renminbi to devalue in spite of numerous threats to do so, says Mr Banerji. "It would be politically impossible," he says, predicting prolonged uncertainty.



Not devaluing would maintain the HK dollar's peg to the US dollar, but would also mean that interest rates in Hong Kong are likely to remain high, affecting property prices, the financial system and equity prices.

"At current valuation levels, Hong Kong is already discounting a watershed event," says Joseph Rooney, global strategist at Lehman Brothers in London.

For Latin America, the Asian tumbles have been a double whammy, coming as the correction on Wall Street has weighed heavily. "Market participants are perhaps overly focused on local fundamentals, missing the fact that global variables maintain the upper hand in the current investment environment," says Todd Edwards, Latin America strategist at BBV Securities in New York.

Although economic fundamentals are relatively healthy, equities have been susceptible to overseas capital flows and commodity prices. While correlations between equities and commodity prices have historically been low, the relationship has changed since last year's Asian turmoil, with correlations rising to as high as 74 per cent, says BBV.

Emiko Terazono